

AR89



2007 ANNUAL REPORT

MD&A  
FINANCIAL STATEMENTS  
REVIEW OF OPERATIONS  
LETTER TO UNITHOLDERS



# "OUR ASSETS DICTATE OUR STRATEGY"

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## FINANCIAL AND OPERATING HIGHLIGHTS

(In thousand Canadian dollars except per unit amounts and where stated otherwise)

	Three Months Ended			Year Ended		
	Dec. 31, 2007	Sept. 30, 2007	Change %	Dec. 31, 2007	Dec. 31, 2006	Change %
<b>FINANCIAL</b>						
Petroleum and natural gas sales	<b>95,310</b>	77,520	23	<b>395,387</b>	444,208	(11)
Funds flow						
From operations <sup>(1)</sup>	<b>38,674</b>	28,477	36	<b>182,756</b>	262,510	(30)
Per unit – diluted	<b>0.41</b>	0.31	32	<b>1.96</b>	2.91	(33)
Earnings						
Earnings (loss) before tax	<b>(969)</b>	(7,811)	88	<b>19,305</b>	140,863	(86)
Per unit – diluted	<b>(0.01)</b>	(0.08)	88	<b>0.21</b>	1.56	(87)
Earnings (loss) after future income tax	<b>6,509</b>	(3,483)	287	<b>(49,750)</b>	140,863	(135)
Per unit – diluted	<b>0.07</b>	(0.04)	275	<b>(0.53)</b>	1.56	(134)
Distributions declared	<b>22,530</b>	27,770	(19)	<b>105,841</b>	224,678	(53)
Per unit	<b>0.24</b>	0.30	(20)	<b>1.14</b>	2.48	(54)
Capital expenditures <sup>(3)</sup>						
Exploration and development	<b>17,716</b>	23,168	(24)	<b>101,960</b>	171,166	(40)
Acquisitions, dispositions and other - net	<b>(2,200)</b>	(24,530)	(91)	<b>(100,702)</b>	(12,088)	—
Net capital expenditures	<b>15,516</b>	(1,362)	—	<b>1,258</b>	159,078	(99)
Corporate acquisitions	—	—	—	—	265,451	(100)
Total assets	<b>928,191</b>	923,683	—	<b>928,191</b>	1,082,734	(14)
Net debt <sup>(1)</sup>	<b>350,415</b>	362,700	(3)	<b>350,415</b>	417,517	(16)
Unitholders' equity	<b>382,005</b>	383,127	—	<b>382,005</b>	520,854	(27)
Trust Units outstanding (thousands)						
- As at end of period	<b>94,609</b>	92,567	2	<b>94,609</b>	92,567	2
<b>OPERATING</b>						
Production						
Natural gas (MMcf/d)	<b>98</b>	96	2	<b>107</b>	118	(9)
Crude oil and natural gas liquids (Bbl/d)	<b>4,734</b>	3,726	27	<b>4,526</b>	4,970	(9)
Total production (Boe/d @ 6:1)	<b>21,044</b>	19,775	6	<b>22,315</b>	24,691	(10)
Average prices						
Natural gas (before financial instruments) (\$/Mcf)	<b>6.68</b>	5.83	15	<b>7.16</b>	7.52	(5)
Natural gas (\$/Mcf) <sup>(2)</sup>	<b>6.68</b>	5.83	15	<b>7.55</b>	8.67	(13)
Crude oil and natural gas liquids (before financial instruments) (\$/Bbl)	<b>80.77</b>	75.54	7	<b>70.60</b>	65.93	7
Crude oil and natural gas liquids (\$/Bbl) <sup>(2)</sup>	<b>71.30</b>	71.31	—	<b>68.75</b>	65.91	4
Drilling activity (gross)						
Gas	<b>8</b>	15	(47)	<b>52</b>	67	(22)
Oil	<b>3</b>	2	50	<b>7</b>	—	—
D&A	—	2	(100)	<b>4</b>	18	(78)
Total wells	<b>11</b>	19	(42)	<b>63</b>	85	(26)
Success rate	<b>100%</b>	89%	—	<b>94%</b>	79%	—

<sup>(1)</sup> Funds flow from operations and net debt are non-GAAP terms. Funds flow from operations represents cash flow from operating activities before net changes in operating working capital accounts. Net debt is equal to long-term debt and the long-term portion of unit-based compensation liability plus/minus working capital. Please refer to the advisory on Non-GAAP measures below.

<sup>(2)</sup> Includes realized but excludes unrealized gains and losses on financial instruments.

<sup>(3)</sup> Excludes corporate acquisitions.

*Certain statements included in this Annual Report constitute forward-looking statements under applicable securities legislation. Please refer to the Management's Discussion and Analysis for advisories on forward-looking statements and the assumptions, risks and uncertainties related to forward-looking information.*

## LETTER TO UNITHOLDERS

Trilogy has had to adapt to significant adversity over the last eighteen months, and it is beginning to look and feel like this adversity is nearing an end. Trilogy has been working diligently to adapt to considerable changes in the business environment including, in no particular order, the transformation of tax legislation relating to trusts in Canada, falling gas prices, escalating labor and supply costs, changing foreign currency exchange rates, considerable changes in the regulatory environment, and major changes to the royalty framework in Alberta where Trilogy conducts virtually all of its work. This has been a lot to deal with in a very short period of time, but the good news is that Trilogy has managed itself through this period and has been able to re-establish a high profitability in this lower price / higher cost environment, and now can look forward to further improving profitability as costs moderate and prices improve.

The announcement to tax trusts in October 2006 led to Trilogy cancelling its convertible debenture financing only days away from closing. As a result, throughout 2007 Trilogy undertook a process to reduce its leverage with debt levels being cut from \$417.5 million to \$350.4 million at the end of the year. The Trust's Marten Creek property and a package of non-core properties in Southern Alberta were both sold for proceeds of over \$100 million. Trilogy expects to increase the excess room available under its credit facility through 2008 to be in a position to take advantage of opportunities as they happen. In addition, Trilogy has adapted to make itself sustainable in a low price environment such as we experienced during the fall of 2007, and is set to prosper as natural gas prices recover. Focus has been brought to reducing costs in all aspects of the business, whether they be capital costs required to drill, complete and tie in wells, operating costs incurred to maintain ongoing production, or administrative costs spent to manage these activities. Trilogy's current monthly distribution of \$0.07 per Trust Unit is enabling the Trust to continue to improve its balance sheet and the strengthening in gas prices is anticipated to result in a payout ratio in the range of only 30 percent.

Trilogy produced 22,315 Boe/d in 2007, generated cash flow of \$183 million, reinvested capital of \$102 million, and distributed \$106 million to Unitholders. The Trust was very closely balancing the amount of capital reinvested and distributed with cash generated from the business. Trilogy set the 2008 budget at \$100 million of capital expenditures which, combined with the currently anticipated distribution of approximately \$85 million, was designed to balance with the projected cash flow for the year. Currently, Trilogy believes that improving natural gas prices indicate the Trust will likely generate cash flow in excess of this budget allowing the Trust to further improve its balance sheet or potentially increase distributions to Unitholders. Recent hedging activity is expected to facilitate this development, with the Trust having locked in half of its natural gas production at US\$9.00/MMbtu through the summer of 2008 and 20 percent of its natural gas production at over US\$10.00/MMbtu for the following winter period.

On reserves, Trilogy had an exciting year in 2007, adding proved plus probable reserves of 9.7 million Boe and replacing 119 percent of its production. A significant portion of these reserve additions, totaling 5.3 million Boe, were positive revisions to prior bookings which reinforces Trilogy's assertion that its reserves are conservatively booked. It is expected that these positive revisions will continue into the future just as they have since inception of the Trust. The cost of these additions was also very positive as all-in finding and development costs were estimated to be only \$8.31/Boe. Including divestitures, FD&A costs would have been negative \$5.82/Boe indicating that all-in capital management for the Trust resulted in Trilogy replacing the reserves sold at a per unit cost significantly less than the price for divested reserves.

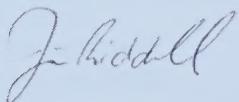
The natural gas business in North America is just coming to grips with the notion that we are less tied to a continental natural gas market and are really part of a world-wide market. While Canadian gas production has dropped over 1 Bcf/d over the course of a year, production from the United States has reversed its decline and actually increased by approximately 3 Bcf/d over the same period. This remarkable turnaround in onshore production in the United States is in no small part attributed to the availability of technology to drill horizontal wells and perform multiple fracture

stimulations in tighter silt and shale reservoirs. It appears that this onshore unconventional gas completion technology is set to make a significant impact on this industry, much as 3-D seismic did decades ago. On another front, after one of the warmest winter periods on record in Europe, gas demand was significantly reduced and the surplus natural gas carried by large liquefied natural gas (LNG) tanker ships normally bound for Europe found its way to North America through much of 2007. This served to double LNG deliveries into North America, with deliveries increasing by close to 2 Bcf/d. These factors combined saw incremental natural gas supply in North America of some 4 Bcf/d and served to increase storage to record levels of over 3.5 Tcf in November 2007. These factors seem to be reversing in 2008 at the same time as natural gas demand is increasing. This increase in demand is partly a result of more normal heating demand in North America, but can also be attributed to an ever-increasing demand for gas for the generation of electricity. As a result of these factors, things appear to have reversed from a surplus position to one where the supply vs. demand balance indicates a shortage. In response, prices in North America have recovered to similar levels as those in the rest of the world.

The single largest factor impacting Trilogy's business in 2007 was the rapid appreciation in the value of Canadian currency as compared to the U.S. dollar. The increase in the Canadian / U.S. exchange rate from U.S.\$0.85/Cdn\$1 to a peak of U.S.\$1.10/Cdn\$1 resulted in Trilogy's realized gas price declining by approximately 30 percent. While the exchange rate has currently moderated to approximately par, it still represents a significant reduction in gas pricing received.

During the fall of 2007, the Alberta government received and made public the results of its royalty review process. The Alberta Government is moving forward with major changes to the royalty framework that has served the people of Alberta, and the oil and gas industry, well for decades. The view of the royalty review panel, as accepted by the Alberta Government, was that the public of Alberta had not been receiving "its fair share" of the resource wealth that had been diligently developed by the industry. It is my view that this Government unfortunately does not fully understand the largest contributing industry to the economy of Alberta. The new royalty framework is proposed to extract an additional \$2 billion annually. While these values vary dramatically with price, Trilogy, as it is currently understood, would be responsible for approximately \$15 million of additional royalties starting in 2009 (using commodity prices assumed in Trilogy's annual reserve report). The new royalty framework, at the same pricing, represents an estimated 3.5 percent reduction in the present value of Trilogy's reserves discounted at 10 percent. While this may not seem like a significant proportion, it actually represents a transfer of approximately \$40 million in hard earned value away from Trilogy Unitholders. It is very likely that the ultimate economic result is in fact value destruction in excess of the annual \$2 billion targeted by the Provincial Government, as the reinvestment required to generate future royalty revenue for the Province, and economic stimulus from this reinvestment, will simply vanish. The Alberta Advantage has been eroded further, and it is truly unfortunate that the Alberta Government did not try to better understand the industry that is the single largest contributor to both the economy and the public purse in Alberta.

I believe Trilogy has managed to weather the storm. The journey has been arduous, but I believe the financial rewards for Unitholders will be significant. I look forward to continuing to report the anticipated results of this hard work through 2008.



J. H. T. Riddell  
President and Chief Executive Officer

February 29, 2008

## QUARTERLY REVIEW

### First Quarter Review

- Trilogy's first quarter was extremely busy with \$55.0 million in capital expenditures
- The Trust drilled 31 (21.4 net) wells during the quarter with a 94 percent drilling success rate
- Production averaged 24,475 Boe/d

### Second Quarter Review

- Capital spending was \$6.1 million for the quarter
- On May 15, Trilogy closed the sale of certain Marten Creek assets for net proceeds of \$75.2 million
- Production averaged 24,030 Boe/d, reflecting the impact of the sale of the Marten Creek assets

### Third Quarter Review

- Capital spending was \$23.2 million for the quarter
- On August 2, Trilogy closed the sale of certain non-core assets in Southern Alberta for net proceeds of \$23.3 million
- Production averaged 19,775 Boe/d, down 18 percent from the prior quarter; this decline in production was due to the sale of the Marten Creek and Southern Alberta assets and downtime related to the scheduled plant maintenance at the K3 gas plant in the Southern Kaybob area

### Fourth Quarter Review

- Capital spending was \$17.7 million during the period
- Having completed the scheduled maintenance in the third quarter, production averaged 21,044 Boe/d, up 6 percent from the prior quarter
- Annual capital spending plans were reduced to \$100 million from the original budget of \$115 million in response to low natural gas prices during the second and third quarters; this resulted in the deferral of projects originally planned for the fourth quarter

## REVIEW OF OPERATIONS

### 2007 Highlights

- Production averaged 22,315 Boe/d (8.1 MMBoe) for the year
- Divested 6.3 MMBoe of proved plus probable reserves for \$100.7 million
- Added 9.72 MMBoe of proved plus probable reserve additions (including technical revisions) for adjusted capital expenditures of \$80.8 million
- Replaced 119 percent of produced reserves, when compared to proved plus probable reserve additions
- All-in finding and development costs (including technical revisions) were \$8.31/Boe for proved plus probable reserves
- All-in finding, development, acquisition and disposition net costs were (\$5.82)/Boe for proved plus probable reserves
- Increased reserve life index to 8.3 years for proved plus probable reserves as compared to 8.0 years in 2006
- Annual operating netback of \$22.44/Boe (including realized gains/losses on financial instruments), resulting in a recycle ratio of 2.7 times for proved plus probable reserves

### Production

Trilogy's annual production averaged 22,315 Boe/d (106.7 MMcf/d of natural gas and 4,526 Bbl/d of crude oil and natural gas liquids) in 2007; this is 9.6 percent below the annual production volume for the prior year. The decline can be attributed to the sale of the Marten Creek and non-core assets in Southern Alberta, the downtime resulting from maintenance at the K3 gas plant and the deferral of certain capital projects to 2008. **Trilogy has forecast 2008 production volumes to average approximately 21,500 Boe/d and anticipates the weighting will be maintained at approximately 80 percent natural gas.**

The following table summarizes the average daily production by Core Operating Area for the past three years in conjunction with Trilogy's 2008 production forecast.

<b>Natural Gas Production (MMcf/d)</b>	2008E	2007	2006	2005
Kaybob	93.0	<b>91.5</b>	93.3	97.3
Marten Creek	0	<b>5.2</b>	18.1	20.1
Grande Prairie	12.0	<b>10.0</b>	6.9	-
<b>Total</b>	<b>105.0</b>	<b>106.7</b>	118.3	117.4

<b>Crude Oil &amp; NGL Production (Bbl/d)</b>	2008E	2007	2006	2005
Kaybob	3,825	<b>4,300</b>	4,717	4,928
Marten Creek	0	<b>0</b>	0	0
Grande Prairie	175	<b>226</b>	253	-
<b>Total</b>	<b>4,000</b>	<b>4,526</b>	4,970	4,928

<b>Total Production (Boe/d)</b>	2008E	2007	2006	2005
Kaybob	19,325	<b>19,565</b>	20,276	21,144
Marten Creek	-	<b>861</b>	3,014	3,351
Grande Prairie	2,175	<b>1,889</b>	1,401	-
<b>Total</b>	<b>21,500</b>	<b>22,315</b>	24,691	24,495

Trilogy disposed of its assets in the Marten Creek area on May 15, 2007, certain non-core Southern Alberta assets on August 2, 2007, and other minor properties for total net proceeds of \$100.7 million. The proceeds were used to pay down Trilogy's outstanding debt.

The assets in Marten Creek were higher decline assets than the remaining Kaybob properties and were located in a winter-access area. The restricted access provided continual operational issues that ultimately affected Trilogy's production targets as well as our commitment to operate efficiently. The non-core assets in Southern Alberta stretched Trilogy's resources across a large geographic area and again, provided significant operational challenges. The economics on these plays were challenging in a low gas price environment and the rationalization of these assets allowed Trilogy to focus on its core areas of Kaybob and Grande Prairie.

By focusing on its core producing assets in Kaybob and Grande Prairie, Trilogy is able to realize significant operational efficiencies with existing resources. These areas provide opportunities for Trilogy's operations staff to further develop the technical expertise needed to explore for high deliverability gas wells with multi-zone development potential. **The gas in these areas is generally richer in liquid hydrocarbons, contributing to a higher netback due to the high heat content of the natural gas.**

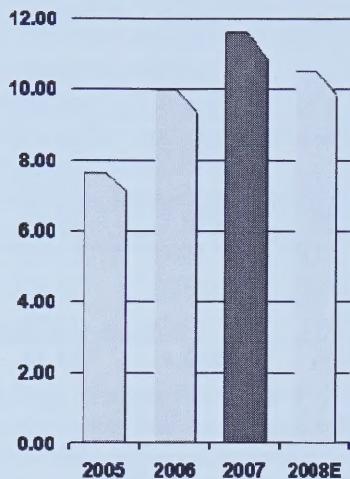
Based on its current portfolio of producing assets and its budgeted drilling program, Trilogy expects to maintain 2008 production levels at approximately the same levels as those reported in 2007 for these assets. The nature of its assets provides Trilogy with the opportunity to pursue numerous play types, reducing the risk of being exposed to a single play type.

## **Operating Costs**

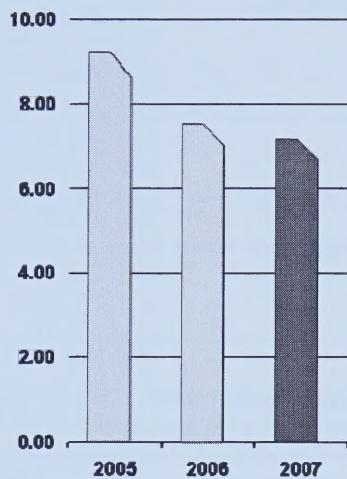
Operating costs for 2007 have increased 16 percent to \$11.61/Boe as compared to \$9.97/Boe as reported in 2006. The increase in operating costs is attributed to higher workover and maintenance costs and the increased cost of goods and services experienced across the energy sector. A portion of the increase was the result of unbudgeted maintenance work that was carried out late in the year. Unbudgeted pump changes to enhance production also contributed to higher costs on a per unit of production basis.

Operating costs have also increased over the past two years as pipeline, compression and processing fees at non-operated facilities have increased. Power costs decreased to \$67/megawatt hour in 2007 from \$81/megawatt hour in 2006; however, power costs are expected to rise again in the coming year. Trilogy is pursuing cost reduction initiatives in the office and the field.

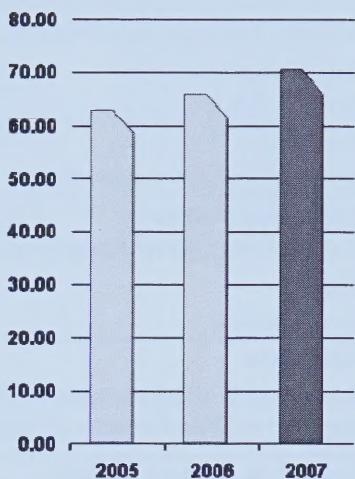
Operating Costs (\$/Boe)



Natural Gas Price (\$/Mcf)



Oil &amp; NGL Price (\$/Bbl)



(Before financial instruments and transportation)

## Profitability

In 2007, Trilogy's average natural gas sales price before financial instruments and transportation decreased by 5 percent, from \$7.52/Mcf in 2006 to \$7.16/Mcf in 2007. As Trilogy is heavily weighted toward natural gas, any decrease in realized price has a significant impact on cash flow. Operating netback, including realized financial instruments, in 2007 dropped 15.2 percent, to \$26.80/Boe as compared to \$31.61/Boe as reported in 2006. This decrease was attributed primarily to the decline in natural gas prices, lower realized gains on financial instruments and higher unit operating costs offset by higher liquid prices and lower royalties.

On a funds flow per Boe basis, the Trust realized a 23 percent decrease, from \$29.14/Boe in 2006 to \$22.44/Boe in 2007. The funds flow from operations per unit was down 33 percent, from \$2.91/unit in 2006 to \$1.96/unit in 2007.

<b>Funds Flow Reconciliation</b>	<b>2007</b>		<b>2006</b>	
	<b>Production (Boe/d)</b>	<b>22,315</b>	<b>Production (Boe/d)</b>	<b>24,691</b>
	<b>\$ million</b>	<b>\$/Boe</b>	<b>\$ million</b>	<b>\$/Boe</b>
Gross revenue including other income and realized financial instruments	407.8	50.06	496.0	55.03
Operating cost	(94.6)	(11.61)	(89.9)	(9.97)
Transportation	(15.6)	(1.91)	(18.9)	(2.09)
Royalties	(78.1)	(9.59)	(100.6)	(11.17)
Asset retirement expenditure	(1.2)	(0.15)	(1.7)	(0.18)
<b>Operating Netback</b>	<b>218.3</b>	<b>26.80</b>	<b>284.9</b>	<b>31.61</b>
General and administrative expenses	(12.3)	(1.51)	(8.4)	(0.93)
Interest	(22.2)	(2.73)	(13.3)	(1.47)
Lease rentals	(1.0)	(0.11)	(0.8)	(0.08)
<b>Funds flow</b>	<b>182.8</b>	<b>22.44</b>	<b>262.4</b>	<b>29.14</b>
Weighted average Trust Units outstanding for the year at December 31 (fully diluted)	93,050		90,330	
<b>Funds flow per Unit (\$/unit)</b>	<b>1.96</b>		<b>2.91</b>	

Columns may not add due to rounding.

## Capital Expenditures

Annual capital expenditures were originally budgeted to be \$115 million (including land and corporate expenditures) for 2007. When commodity prices remained weak through the second and third quarters, Trilogy responded by reducing its capital spending plans and monthly distributions. Capital expenditures were \$102.0 million for the year prior to asset sales. The decrease in actual versus budgeted expenditures occurred mainly in three areas:

- Land sale expenditures amounted to \$4.4 million as compared to the \$10 million that was budgeted.
- Trilogy deferred construction of a 10 MMcf/d sweet gas plant while it was negotiating with the current area operator. Construction on this new gas plant has commenced and is expected to be completed in April 2008. Trilogy expects to realize improved performance and lower operating costs by utilizing this new facility. Increased netbacks will offset the \$8 million capital investment.
- Existing equipment inventories were used to reduce capital spending. Trilogy's inventory decreased by \$0.6 million in the year as compared to an increase of \$3.3 million in 2006.

Trilogy continues to work with its partners to reduce the amount of capital invested into pipeline and facilities so that more capital may be allocated to drilling and completion operations. In 2008, Trilogy has budgeted \$93 million for drilling, completion and facility-related capital expenditures plus an additional \$5 million for acquisitions of acreage at Crown land sales during the year.

<b>Capital Expenditures</b> (thousands of dollars)	2008E	2007
Land	5.0	<b>4.4</b>
Geological and geophysical	2.0	<b>2.2</b>
Drilling and Completion	68.0	<b>63.6</b>
Production equipment and facilities	25.0	<b>26.1</b>
Corporate office	-	<b>6.2</b>
Inventory	-	<b>-0.6</b>
Exploration and development expenditures	100.0	<b>101.9</b>
Property acquisitions	-	-
Proceeds received on property dispositions	-	<b>-100.7</b>
Net capital expenditures	100.0	<b>1.2</b>

## Drilling Activity

Trilogy participated in the drilling of 63 (39.1 net) wells during 2007, as compared to 85 (68.3 net) wells in the previous year, with an overall success rate of 94 percent (97 percent net) for the year. The high drilling success rate in the Kaybob and Grande Prairie areas supports Trilogy's drilling strategy of exploiting the large tight-gas resource potential on its lands as well as the conventional oil and gas formations that have multi-zone development potential. Trilogy will continue to acquire land in these areas to ensure that it maintains an ongoing prospect inventory of high quality/low risk development wells that can be exploited to maintain current production levels and replace produced reserves in the years to come. In 2008, Trilogy plans to continue to drill play types similar to those exploited in the past year, as well as to identify and pursue other formations that may provide similar exploitation opportunities.

<b>Drilling Results</b>	<b>Development</b>		<b>Exploration</b>	
	Gross	Net	Gross	Net
Gas	37	24.2	15	10.4
Oil	6	3.5	1	0.0
D&A	1	0.0	3	1.0
<b>Total All Wells</b>	<b>44</b>	<b>27.7</b>	<b>19</b>	<b>11.4</b>
Success (%)	98	100	84	91

## CORE OPERATING AREAS

### **Kaybob**

The Kaybob area accounted for approximately 88 percent of Trilogy's production and 80 percent of capital expenditures in 2007. This area will continue to be the focus of 2008 spending plans given Trilogy has amassed a large portfolio of high quality drilling prospects which it believes will enable the Trust to replace annual production declines and produced reserves.

Trilogy has developed a strategy of exploiting reserves throughout the Kaybob area in order to utilize the entire gathering system to reduce the potential back-out of existing production that can be caused when the new high pressure gas wells being drilled in the Mannville and Triassic formations are tied in to the existing gathering systems. Integration of technical disciplines has allowed Trilogy to carefully plan the development of the existing pools to reduce the risk of over-developing areas by drilling more wells than required to capture the reserves in a reasonable time frame. Having a large drilling inventory will allow Trilogy to drill premium projects to maximize production and reserves and also minimize back-out, thereby generating a higher rate of return, and ultimately increasing the value of its assets.

**Kaybob 2007 drilling activity exploited the tight gas sands in the Montney and Gething formations with additional success in the Nordegg, Bluesky and Spirit River formations.** In 2008, Trilogy will continue to pursue these same play types as well as accelerate the development of its oil plays in order to capture additional value before the change in Alberta's royalty structure in 2009, which may adversely impact the Trust's high rate wells. The development of oil plays in the current oil price environment will also assist the Trust in realizing a higher price on a per barrel of oil equivalent basis.

Trilogy has initiated the construction of a sweet gas plant in the Waskahigan area. The plant is slated to have up to 20 MMcf/d of processing capacity with 10 MMcf/d of compression initially installed. There is currently 5 MMcf/d of shut-in gas that will benefit from the new plant as well as 4 MMcf/d of existing production which will be redirected to the new plant to realize lower operating costs for the remaining reserves. Trilogy plans to offer unused compression and processing capacity to third-party producers in the area, and any fee revenue will reduce unit operating costs for the Trilogy gas.

The Presley development project has realized significant production and reserve gains in 2007 and as a result the Trust plans to install additional compression in this area to handle new Trilogy and third-party volumes. Trilogy will evaluate the economics of upgrading these compression facilities to a gas processing plant in order to reduce operating fees currently paid to custom processors in the area.

## **Grande Prairie**

Trilogy had a successful year drilling in the Grande Prairie area in 2007, supporting the investment decision to acquire Redsky Energy and Blue Mountain Energy in 2006. The Trust remains challenged by limited access to non-operated facilities; however, we have been able to invest additional capital in pipelines and compression to transport Trilogy's natural gas to central processing facilities.

Trilogy has been actively conducting recompletions and workovers on marginal producers and shut-in Grande Prairie wells to increase production over the past year. The Trust entered the year at approximately 1,800 Boe/d and exited at approximately 2,200 Boe/d, maintaining an average of 1,888 Boe/d for the year. Several high deliverability wells suffered significant production restrictions due to a lack of capacity in existing gathering and processing systems. Projects are planned for 2008 to mitigate some of these constraints.

Trilogy is optimistic regarding the future development of the Grande Prairie area and believes that its growing prospect inventory, increased capital spending and aggressive land sale acquisitions as well as risk reducing farm-ins will help grow the area. Trilogy will continue to evaluate acquisition opportunities to enhance its current operations.

## **Marten Creek**

The Marten Creek capital program was reduced to \$5 million in 2007 from \$17 million in 2006. Given this area is restricted to winter access, the capital was invested in the first quarter: drilling 4 (4.0 net) wells, deepening an existing 100 percent well to evaluate the Banff formation, and installing two 100 percent field compressors. Each well found the targeted zone but after completion the established gas rates were too low to justify tie-in. With the disappointing drilling results Trilogy averaged approximately 15 MMcf/d for the first quarter in this area.

Marten Creek proved to be a challenging field to develop and operate. Winter-only access eliminated the ability to cost effectively perform summer well maintenance to mitigate the relatively steep decline of the field. Production issues were prevalent due to the low pressure shallow wells that produce significant water rates. These factors led to the decision to divest the property effective March 1, 2007 for proceeds of \$75.2 million.

## **Southern Alberta**

The Southern Alberta producing properties, representing approximately 500 Boe/d of production and 1.2 MMBoe of proved plus probable reserves, were sold for proceeds of \$23.3 million. The assets were spread over a large geographic area in Southern Alberta, which provided numerous challenges, including the requirement for significant attention to maintain daily production, as we integrated these wells into Trilogy's operations following the acquisition of Blue Mountain Energy in October, 2006.

Exploration projects were retained in this area by Trilogy as it considered the exploration value of the assets to be significantly higher than the developed properties that were sold. Trilogy intends to continue to explore these lands and create value prior to ultimately divesting of these properties.

## LAND

Trilogy spent \$4.4 million in 2007 to acquire 20,909 net acres at Crown land sales, bringing the 2007 total to 642,443 net acres of land, 64 percent (413,254 acres) of which is considered undeveloped. These totals exclude approximately 32,000 net developed and 89,280 net undeveloped acres divested in the Marten Creek asset sale and the 26,179 net acres which were sold with the non-core Southern Alberta assets. Trilogy's undeveloped acreage (no reserves assigned) has been evaluated by Seaton-Jordan & Associates Ltd. and assigned a fair market value in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities.

The majority of Crown land purchased in 2007 was in the Kaybob Operating Area and is relatively close to the Trust's recent drilling successes and facility additions. Trilogy intends to capitalize on its technical expertise to continue to acquire acreage with future development potential and to ensure it maintains a competitive advantage in its core operating areas. Trilogy has budgeted \$5 million for Crown land purchases in 2008.

Land Area(acres)	Gross	Net
Land assigned reserves	347,760	229,189
Undeveloped land	532,522	413,254
<b>Total</b>	<b>880,282</b>	<b>642,443</b>
Fair market value of undeveloped land (thousand dollars)		\$66,924

The value of Trilogy's undeveloped land base has decreased from \$97 million in 2006 to \$67 million in 2007. The undeveloped acreage total has declined by 165,682 net acres due to the disposition of undeveloped land in the Marten Creek and Southern Alberta areas, the expiry of undeveloped crown acreage and the categorization of lands from undeveloped to developed as a result of Trilogy's ongoing operations.

## RESERVES

Trilogy's reserves evaluation for the year ended December 31, 2007 has been prepared by Paddock Lindstrom and Associates Ltd. ("Paddock Lindstrom"). The reserves report has been prepared in accordance with the National Instrument 51-101 definitions, standards and procedures. Proved plus probable crude oil reserves increased 35.2 percent from 6,536.5 MBbl in 2006 to 8,837.3 MBbl in 2007, due primarily to technical revisions in the Simonette area. For the same period of time, proved plus probable natural gas reserves decreased 11.6 percent, from 344.7 Bcf to 304.7 Bcf. Natural gas liquids also declined 4 percent from 8,012 MBbl to 7,656 MBbl in 2007. The decline in the Trust's reserves in the past year was primarily the result of the properties divested in the Marten Creek and Southern Alberta areas.

The following table summarizes the gross (before royalties) reserves for the year ended December 31, 2007 using forecast prices and costs.

Reserve Category	Natural Gas BCF	Crude Oil MBbl	Natural Gas Liquid MBbl	Boe (6:1) MBoe	Before tax		
					0%	5%	10%
<b>Proved</b>							
Developed Producing	187.7	5436	4970	41683.8	1344.6	1026.9	838.1
Developed Non-Producing	19.2	428	349	3975.1	108.1	82.4	65.7
Undeveloped	6.6	0	179	1285.2	46.4	23.6	13.4
<b>Total Proved</b>	<b>213.5</b>	<b>5864</b>	<b>5499</b>	<b>46944.1</b>	<b>1499.1</b>	<b>1132.9</b>	<b>917.2</b>
<b>Probable</b>	<b>91.2</b>	<b>2973</b>	<b>2158</b>	<b>20334.1</b>	<b>720.2</b>	<b>379.8</b>	<b>237.5</b>
<b>Total Proved plus Probable</b>	<b>304.7</b>	<b>8837</b>	<b>7656</b>	<b>67278.2</b>	<b>2219.3</b>	<b>1512.7</b>	<b>1154.7</b>

Columns and rows may not add due to rounding

### Notes

- i) Reserve values were determined by Paddock Lindstrom as of December 31, 2007, using the forward-pricing assumptions in effect by the firm at that date. Future Net Revenue does not represent fair market value.
- ii) No value has been assigned to tangible assets other than those associated with proved producing reserves.
- iii) Trilogy's financial instruments, which extend past January 1, 2008, have not been valued by Paddock Lindstrom.
- iv) Reserve values have been evaluated under a blow-down scenario.

## Reserve Reconciliation for Year-end 2007

On a per barrel of oil equivalent basis (6:1), total proved reserves were 46,944 MBoe and proved plus probable reserves were 67,278 MBoe as of December 31, 2007.

The following table sets forth the reconciliation of Trilogy's gross reserves for the year ended December 31, 2007 using forecast prices and costs:

	Total Proved Reserves				Probable Reserves				Total P+P Reserves			
	Oil MBbl	Gas Bcf	NGL MBbl	BOE MBoe	Oil MBbl	Gas Bcf	NGL MBbl	BOE MBoe	Oil MBbl	Gas Bcf	NGL MBbl	BOE MBoe
Trilogy @ Dec 31, 2006	4334	239	5726	49827	2203	106	2286	22175	6537	345	8012	72002
2007 Production	-832	-39	-820	-8143	0	0	0	0	-832	-39	-820	-8143
Technical Revisions	2361	14	336	5081	756	-1	-215	342	3118	13	119	5424
Reserves Additions	72	17	330	3298	53	5	122	1004	126	22	452	4302
Acquisition	0	0	0	0	0	0	0	0	0	0	0	0
Divestments	-71	-18	-72	-3119	-39	-19	-34	-3187	-111	-37	-106	-6307
Trilogy @ Dec 31, 2007	5864	213	5499	46944	2973	91	2158	20334	8837	305	7656	67278

Columns and rows may not add due to rounding

## Reserve Replacement

Trilogy produced 8,143 MBoe of reserves in 2007 (22,315 Boe/d) and added a total of 8,379 MBoe of proved reserves and 9,726 MBoe of proved plus probable reserves through technical revisions and new additions related to capital investment. **Based on a total proved comparison this is a 103 percent replacement of produced reserves and 119 percent replacement when compared to proved plus probable reserves.** The strategy Trilogy has employed since inception has been to replace produced reserves at competitive finding and development costs.

Trilogy's proved undeveloped (PUD) reserve component has declined from 2,206 MBoe in 2006 to 1,285 MBoe in 2007. The decline in proved undeveloped reserves is offset by a decrease of \$8 million in future development capital from the 2007 capital expenditure total.

Trilogy's Reserve Life Index (RLI) has increased from 8.0 years in 2006 to 8.3 years in 2007 for Total Proved plus Probable reserves. For Total Proved reserves, the RLI has increased from 5.5 years to 5.8 years for the same period.

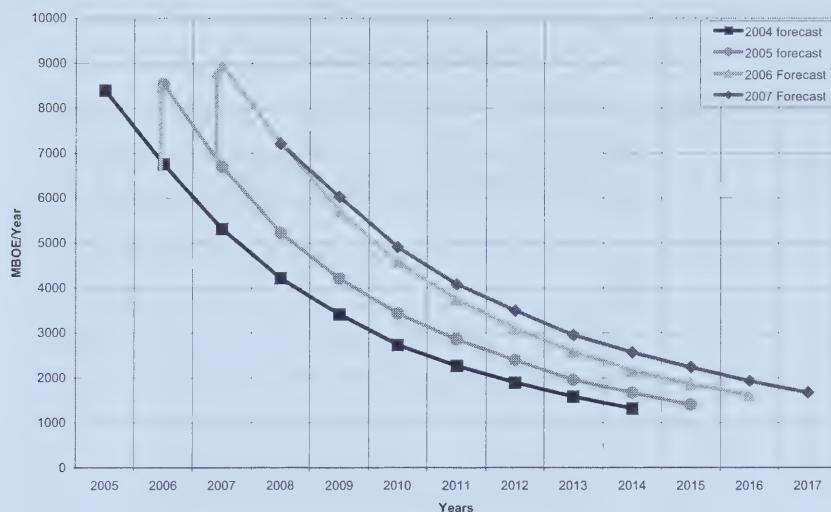
## Technical Reserve Revisions

Technical reserve revisions describe positive or negative changes to reserves that were booked in prior periods. In prior years, Trilogy has posted significant positive technical revisions that are in the range of 1.5 – 2.5 MMBoe of proved plus probable reserves. In 2007, Trilogy was successful in the workover and optimization of the Simonette oil pools resulting in positive technical revisions of 2,233 MBoe of proved reserves and 3,286 MBoe of proved plus probable reserves. Additional technical revisions of approximately 2,138 MBoe were added on the balance of Trilogy's producing assets. Trilogy will continue to develop tight gas reservoirs that typically exhibit a hyperbolic decline rate (production decline rate decreases with time), and these reservoirs will generally have positive technical revisions.

## Proved Reserve Forecast (MBoe/year)

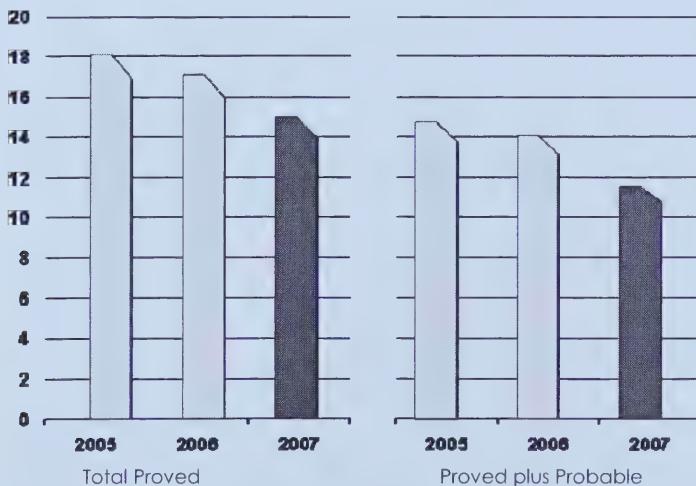
Trilogy's annual production forecast increased from inception until 2007. The decline in annual production forecast in 2008 is due mainly to the asset sales in Marten Creek and Southern Alberta in the prior year; daily production declined from 26,000 Boe/d as originally forecast in 2007 to the current forecast of 21,500 Boe/d in 2008.

## Annual Production Forecasts (Total Proved Reserves)



In 2007 Trilogy sold 3,119 MBoe of proved reserves and 6,307 MBoe of proved plus probable reserves in the Marten Creek and Southern Alberta areas for total net proceeds of \$100.7 million, including other minor asset dispositions. The Marten Creek property had a higher production decline relative to Trilogy's remaining producing properties. The disposition resulted in an improvement in the average quality of Trilogy's reserve base, a lower production decline rate and a higher RLI. The graph below illustrates the Ten Year Average Base Production Decline, reflecting an increase in the quality of Trilogy's assets since the Trust's inception.

## Ten Year Base Production Decline Rate (%)



## FINDING AND DEVELOPMENT COSTS

Trilogy's land base has provided significant drilling and completion opportunities that have been exploited over the past few years. The drilling success rate reflects the quality of the land and asset base. The reserve potential of these lands, both developed and undeveloped, will continue to provide Trilogy with lower cost reserve additions.

### Finding and Development Capital

2007 Working Interest Capital Expenditures (millions of dollars)	Change in Future Capital New Additions			Total F&D Capital	
	2007 Capital	Proved	P+P	Proved	P+P
Land	4.4			4.4	4.4
Geological and geophysical	2.2			2.2	2.2
Drilling	63.6	-8.0	-14.9	55.6	48.7
Production equipment, facilities and inventory	25.5			25.5	25.5
<b>Total capital expenditures</b>	<b>95.7</b>	<b>-8.0</b>	<b>-14.9</b>	<b>87.7</b>	<b>80.8</b>

Trilogy's undeveloped reserves base decreased year over year through the transfer of undeveloped reserves into the developed category, giving rise to a corresponding decrease in future capital. Proved undeveloped reserves decreased from 2,206 MBoe in 2006 to 1,285 MBoe in 2007 through the development of lands that were previously booked as undeveloped reserves.

Trilogy's finding and development costs for new reserve additions were calculated to be \$10.47/Boe for proven reserves and \$8.31/Boe for proven plus probable reserves for the year ended December 31, 2007.

	Proved Capital (\$MM)	Proved Reserves MBoe	Proved F&D \$/Boe	Proved + Probable Capital (\$MM)	Proved + Probable Reserves MBoe	Proved + Probable F&D \$/Boe
<b>2007 F&amp;D Cost</b>						
<b>Extensions, discoveries and revisions</b>	<b>87.7</b>	<b>8379</b>	<b>10.47</b>	<b>80.8</b>	<b>9726</b>	<b>8.31</b>

The aggregate of the exploration and development costs incurred in the most recent financial year and the change during the year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.

Finding and development costs when calculated over a three-year period were \$14.51/Boe for proven reserves and \$12.44/Boe for proven plus probable reserves, respectively, for the three-year period ended December 31, 2007. Calculating finding and development costs over a longer period will reduce the effect of spending capital in one year and capturing the reserves in the following year. By looking at a rolling average we can evaluate the impact of a larger capital pool and the reserves assigned to reduce any variations as a result of year ends.

	Proved Capital (\$MM)	Proved Reserves MBoe	Proved F&D \$/Boe	Proved + Probable Capital (\$MM)	Proved Reserves MBoe	Proved + Probable F&D \$/Boe
<b>3 Year Average F&amp;D Cost</b>						
Extensions, discoveries and revisions	399	27520	14.51	373	30026	12.44

Trilogy expects that its cost of finding and development for 2007 and the three year average ending December 31, 2007 will be one of the lowest in the industry.

## Pre-Tax Net Asset Value

Net (Appraised) Asset Value Before Tax (millions of dollars as at December 31, 2007)	NPV @ 5%	NPV @ 10%
Proved plus probable reserve value <sup>(1)</sup>	1,512.7	1,154.7
Undeveloped Land Value <sup>(2)</sup>	66.9	66.9
Seismic value	26.1	26.1
Inventory	8.7	8.7
Subtotal	1,614.4	1,256.4
Working Capital (deficiency)	(23.9)	(23.9)
Total Assets	1,590.5	1,232.5
Long-term portion of debt and unit-based compensation	326.5	326.5
<b>Net (appraised) asset value</b>	<b>1,264.0</b>	<b>906.0</b>
Trust Units outstanding at December 31, 2007 (Fully Diluted)	<b>95,876,704</b>	
Net (appraised) asset value per unit at December 31, 2007	<b>13.18</b>	<b>9.45</b>

Columns and rows may not add due to rounding.

(1) Before tax net present value of proved plus probable reserve at 5% and 10% discount rates using forecast price and costs

(2) Undeveloped land value provided by Seaton-Jordan & Associates Ltd.

## STAFFING

In 2007 Trilogy continued to utilize certain services of Paramount Resources ("Paramount") under the Services Agreement (SA) entered into with Paramount when the Trust was formed in April of 2005. In the past year Trilogy has fully internalized the Human Resources and Engineering and Construction Departments within Trilogy. Gas Marketing responsibilities and certain other administrative services remain with Paramount under the SA. In 2007, Trilogy and Paramount agreed to extend the SA until to March 31, 2008 to allow for a smooth transition of the remaining shared services. It is anticipated that the SA will be further extended until March 31, 2009.

As of December 31, 2007, Trilogy employed 243 full time and contract employees; this includes 85 full time office staff plus 13 contract employees. In the field Trilogy employs 71 full time and 74 contract personnel to operate four gas plants, three oil batteries and manage Trilogy's operated wells.

## HEALTH, SAFETY AND ENVIRONMENT

### Health and Safety

Trilogy's main priority is the health and safety of its employees and contractors. The policies, practices and procedures associated with the Trust's Health and Safety Management System are an integral part of its daily operations; endeavoring to make safety a guiding factor in all decisions with safety awareness, training and accountability being well established fundamentals of the corporate culture. Hazard and risk assessment, incident/accident reporting and investigation, and site inspections and audits, internally as well as by insurance companies and regulatory agencies, provide a means of measuring performance. As well, our performance is measured through "Stewardship Benchmarking" with members of the Canadian Association of Petroleum Producers (CAPP).

### Environment

Commitment to environmental protection and stewardship is an integral aspect of our operations and a significant component of Trilogy's decision making process. Through proactive planning, environmental pre-site assessments are conducted for soil conservation, to identify natural drainage patterns and to establish baseline information. New technologies are employed to reduce the foot print on the land, impacted material from spills are cleaned up and remediated, and other generated wastes as a result of our business activities are identified, processed and tracked in accordance with regulatory requirements and guidelines. All this is to ensure that the land is restored to a productive state at the time of surface reclamation. An asset retirement inventory has been developed and is maintained. Trilogy participates in voluntary and mandatory reporting of air emissions and contaminants to various regulatory and industry agencies. Trilogy also works with industry and government to ensure our water resources, including rivers, streams, lakes and wetlands, as well as the groundwater systems that are linked to them are being used in a safe and sustainable manner. Through "Stewardship Benchmarking", our environmental performance is also measured with members of CAPP. Trilogy constantly monitors and reviews its operations to find new ways to improve its environmental performance.

## CORPORATE GOVERNANCE

The Board of Directors of Trilogy Energy Ltd., the Administrator of Trilogy Energy Trust, is responsible for overseeing the conduct of the business of Trilogy and the activities of Management, which is responsible for the day-to-day conduct of the business of the Trust. The Board's fundamental objectives are to preserve and enhance long-term Unitholder value, to ensure Trilogy meets its obligations on an ongoing basis and that it operates its business in a reliable and safe manner. Trilogy has adopted sound principles of corporate governance so as to align the interests of its Board members and Management with those of its investors. The Board has established written charters, codes and policies that clearly define the role of the Board and Trilogy's senior management as stewards of the Trust.

The Board of Directors is comprised of eight members, six of whom are independent in accordance with the meaning of independence set out in National Instrument 58-101 *Disclosure of Corporate Governance Practices* ("NI 58-101"). A lead director has been appointed. The Board operates under a written mandate, which provides direction on the authority of the Board and its duties and responsibilities with respect to supervising the management of the business and affairs of Trilogy.

There are four standing committees of the Board: the Audit Committee, the Corporate Governance Committee, the Compensation Committee and the Environmental, Health and Safety Committee. Each committee includes directors who possess the relevant skills and knowledge needed to execute the committee's mandate. All of the members of the Corporate Governance Committee and the majority of the members of the Compensation Committee and the Environmental, Health and Safety Committee are independent in accordance with the meaning of independence set out in NI 58-101. All of the members of the Audit Committee are also independent as that term is defined in Multilateral Instrument 52-110 *Audit Committees*. Each committee has a written charter that clearly defines its duties, responsibilities and the extent of its authority. The Board mandate requires that the effectiveness of the Board, each committee and each individual director be assessed regularly.

The Board has developed written position descriptions for the Chairman of the Board and the Chair of each Committee, the Lead Director and Senior Management.

Trilogy has also adopted the following codes and policies:

- Code of Business Conduct;
- Code of Ethics for the CEO, President, CFO and Senior Financial Supervisors;
- Disclosure and Insider Trading Policy and a Whistleblower Policy; and
- Environmental, Health and Safety Policy.

These policies may be viewed on Trilogy's website [www.trilogyenergy.com](http://www.trilogyenergy.com).

More detailed information regarding Trilogy's Board and its approach to corporate governance is set forth in the Management Information and Proxy Circular dated March 5, 2008.

Certain statements included in this Review of Operations constitute forward-looking statements under applicable securities legislation. Please refer to the Management's Discussion and Analysis to which this Review of Operations is attached for Advisories on forward-looking statements, the assumptions upon which such statements are made and the risks and uncertainties which could cause actual results to differ materially from those anticipated by Trilogy and described in the forward-looking statements or information.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides the details of the financial condition and results of operations of Trilogy Energy Trust ("Trilogy" or the "Trust") as at and for the year ended December 31, 2007, and should be read in conjunction with the Trust's consolidated financial statements and related notes for the years ended December 31, 2007 and 2006 and MD&A for the year ended December 31, 2006. The consolidated financial statements have been prepared in Canadian Dollars in accordance with Canadian generally accepted accounting principles ("GAAP").

Readers are cautioned of the advisories on forward-looking statements, estimates, non-GAAP measures and numerical references which can be found at the end of this MD&A. This MD&A is dated and was prepared using currently available information as of February 29, 2008.

### BUSINESS OVERVIEW, STRATEGY AND KEY PERFORMANCE DRIVERS

Trilogy's oil and gas assets are primarily high working interest properties that are geographically concentrated in areas that have multizone development potential. Trilogy's abundant land position provides for numerous low-risk drilling opportunities with good access to infrastructure and processing facilities. The majority of the wells and producing infrastructure are operated by Trilogy's operating entities.

The significant changes in the Trust's business environment that have occurred within the last 18 months (see Business Environment section) have negatively impacted the Trust's operating results during 2007 and resulted in a decline in Trilogy Energy Trust Unit's market price. As a result of these recent adverse changes in Trilogy's business environment, the Trust has developed strategies to be profitable in a low gas price environment while it continues to distribute cash to its Unitholders. Trilogy will continue to focus on maximization of long-term value to Trilogy Unitholders by developing its extensive inventory of assets at a pace that provides sustainability through the replacement of produced reserves without adversely impacting its financial strength.

Trilogy's successful operations are dependent upon several factors, including but not limited to, the price of energy commodity products, the effectiveness of the Trust's approach to managing price volatility, its capability to sustain desired levels of production, its efficiency in developing and operating properties and its ability to control costs. The Trust's key measures of performance with respect to these drivers include, but are not limited to, average production per day, average realized prices, average operating costs per unit of production and average finding and development cost per unit of reserve additions. Trilogy's performance during the last three years with respect to these measures is set out below.

(In thousand dollars except as otherwise indicated)	2007	2006	2005
Average production (Boe/d)	<b>22,315</b>	24,691	24,495
Natural gas production	<b>80%</b>	80%	80%
Average realized prices (before financial instruments):			
Natural gas (\$/Mcf)	<b>7.16</b>	7.52	9.23
Oil and natural gas liquids (\$/Boe)	<b>70.60</b>	65.93	63.03
Average realized prices (after financial instruments):			
Natural gas (\$/Mcf)	<b>7.55</b>	8.67	8.86
Oil and natural gas liquids (\$/Boe)	<b>68.75</b>	65.91	61.57
Average operating cost (\$/Boe)	<b>11.61</b>	9.97	7.62
Earnings before income tax	<b>19,305</b>	140,863	78,798
Per diluted Trust Unit (\$/Trust Unit)	<b>0.21</b>	1.56	1.00
Cash flow from operations	<b>196,353</b>	259,858	192,501
Per diluted Trust Unit (\$/Trust Unit)	<b>2.11</b>	2.88	2.43
Distributions declared	<b>105,841</b>	224,678	190,763
Per Trust Unit (\$/Trust Unit)	<b>1.14</b>	2.48	2.35
Exploration and development expenditures	<b>95,739</b>	170,151	140,218
Finding and development cost:			
Proved (\$/Boe)	<b>10.47</b>	17.63	14.83
Proved plus probable (\$/Boe)	<b>8.31</b>	16.93	11.78

## BUSINESS ENVIRONMENT

The oil and gas income trust sector faced significant challenges in 2007 including reduced access to capital markets, low natural gas prices and a high cost environment. While the sector was attempting to minimize and recover from the impact of the federal government's decision to impose trust-level tax on distributions from income trusts (see discussions under *Income Taxes*), the Canadian oil and gas industry was negatively impacted by the Alberta government's announcement of changes to the royalty regime which will result overall in higher Crown royalty liabilities for the industry effective January 1, 2009.

The past year also marked a rare inverse correlation of the market prices of crude oil and natural gas futures. While crude oil prices headed to record high levels, natural gas prices have declined throughout 2007 because of increased natural gas availability in North America. The importation of liquefied natural gas into North America has contributed to high natural gas storage levels. Adding to the challenges of gas weighted Canadian producers was the steep appreciation of the Canadian dollar against the United States (U.S.) dollar in the second half of 2007, which has caused lower realized natural gas prices in Canada.

The effects of declining natural gas prices in Canada combined with Alberta's high cost economy and the other changes described above resulted in several income trusts entering into merger and consolidation arrangements in 2007. In addition, a significant number of major oil and gas players reduced capital spending in 2007 and have planned to lower capital spending in Canada in 2008. The inevitable decline in drilling activity as a result of reduced capital spending, which has been felt in 2007 and is also being anticipated for 2008, is expected to ultimately drive the natural gas prices higher.

The following table summarizes the key commodity price benchmarks during the last three years:

	2007	2006	2005
<b>Crude Oil</b>			
West Texas Intermediate monthly average (US\$/Bbl)	<b>72.34</b>	66.22	56.29
<b>Natural gas</b>			
NYMEX (Henry Hub Close) monthly average (US\$/MMBtu)	<b>6.86</b>	7.23	8.62
AECO monthly average (Cdn\$/GJ)	<b>6.26</b>	6.62	8.04
<b>Canadian – U.S. Dollar Yearend Closing Exchange Rate</b>			
(Cdn\$/US\$)	<b>0.99</b>	1.17	1.16

## FINANCIAL HIGHLIGHTS

- Capital expenditures totaled \$17.7 million for the fourth quarter of 2007 bringing the year-to-date capital spending to \$102.0 million for 2007, as compared to \$171.2 million for 2006. Finding and development costs of proved and probable reserves (including technical revisions) for 2007 were lower at \$8.31/Boe as compared to \$16.93/Boe in 2006.
- Reported sales volumes for the fourth quarter of 2007 averaged 21,044 Boe/d as compared to 19,775 Boe/d for the previous quarter. Third quarter sales volumes were impacted by a plant turnaround and a line break in Kaybob. On a full year basis, average sales volumes were lower at 22,315 Boe/d in 2007 as compared to 24,691 Boe/d in 2006 as a result mainly of property dispositions.
- Funds flow from operations increased to \$38.7 million during the fourth quarter of 2007 as compared to \$28.5 million for the previous quarter, due to higher average realized natural gas prices and sales volumes, offset by higher royalties, operating costs and realized loss on financial instruments. The year-to-date funds flow from operations totaled \$182.8 million in 2007, a 30 percent decrease from the previous year as a result primarily of lower average natural gas prices and sales volumes, higher operating costs, interest, financing charges and general and administrative expenses and lower realized gain on financial instruments, offset by lower royalties.
- In 2007, Trilogy disposed of its Marten Creek property and other properties in southern Alberta for total proceeds of \$100.7 million, including other minor dispositions, reducing Trilogy's net debt balance from \$417.5 million at the end of 2006 to \$350.4 million at the end of 2007.
- Distributions declared to Unitholders for the fourth quarter of 2007 were \$22.5 million or 68 percent of cash flow from operations (\$105.8 million for year-to-date 2007 or 54 percent of cash flow from operations).
- The fourth quarter loss before tax of \$1.0 million was down from the \$7.8 million loss before tax posted in the third quarter due primarily to the abovementioned favorable changes in funds flow from operations, offset by higher depletion and depreciation expense. Earnings before income tax for the year 2007 declined to \$19.3 million from \$140.9 million in 2006.
- In 2007, the government of Canada enacted legislation imposing income taxes upon publicly traded income trusts for taxation years beginning after 2010. As a result of this new legislation, a non-

cash future income tax charge of \$69.1 million was recognized in earnings resulting in a loss after tax of \$49.8 for the year ended December 31, 2007.

- On October 25, 2007, the government of Alberta announced a New Royalty Framework expected to bring significant

changes to the existing royalty structure effective January 1, 2009. Trilogy anticipates paying higher royalties upon the implementation of the New Royalty Framework. The impact of this proposed royalty changes to Trilogy will be quantified once the legislation is finalized.

## **SUBSEQUENT EVENTS**

Trilogy entered into financial forward contracts to sell 50,000 MMBtu/d of natural gas from April to October 2008 at a fixed NYMEX price of U.S.\$8.99/MMBtu, and 20,000 MMBtu of natural gas from November 2008 to March 2009 at a fixed NYMEX price of U.S.\$10.02/MMBtu.

On February 29, 2008, Trilogy's Board of Directors approved a normal course issuer bid through the facilities of the Toronto Stock Exchange (TSX). If such normal course issuer bid is approved by the TSX, Trilogy expects to be entitled to purchase up to 4,771,579 Trust Units during the one year period commencing on the date of approval of the normal course issuer bid by the TSX.

## RESULTS OF OPERATIONS

Operating Results Summary (In thousand dollars)	Three Months Ended		Years Ended	
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2007	Dec. 31, 2006
<b>Operating income<sup>(1)</sup></b>	<b>50,120</b>	36,515	<b>207,193</b>	234,833
Other income (expenses)	<b>675</b>	387	<b>195</b>	2,009
Realized financial instruments <sup>(2)</sup>	<b>(4,125)</b>	(1,451)	<b>12,179</b>	49,735
General and administrative expenses (cash portion)	<b>(2,251)</b>	(1,777)	<b>(12,311)</b>	(8,381)
Interest and financing charges	<b>(4,977)</b>	(4,944)	<b>(22,219)</b>	(13,272)
Exploration expenditures <sup>(3)</sup>	<b>(768)</b>	(253)	<b>(2,281)</b>	(2,414)
<b>Funds flow from operations<sup>(1)</sup></b>	<b>38,674</b>	28,477	<b>182,756</b>	262,510
<i>Non-cash operating items:</i>				
Depletion and depreciation	<b>(34,450)</b>	(26,647)	<b>(123,705)</b>	(129,686)
Unrealized financial instruments <sup>(2)</sup>	<b>(3,646)</b>	(1,945)	<b>(25,387)</b>	21,814
General and administrative recovery	<b>405</b>	421	<b>92</b>	412
Exploration expenditures <sup>(4)</sup>	<b>(1,495)</b>	(4,055)	<b>(8,637)</b>	(22,728)
Gain (loss) on disposition of property, plant and equipment	<b>670</b>	(2,939)	<b>(1,223)</b>	12,277
Accretion on asset retirement obligations	<b>(1,127)</b>	(1,123)	<b>(4,591)</b>	(3,736)
Future income tax (expense) recovery <sup>(5)</sup>	<b>7,478</b>	4,328	<b>(69,055)</b>	—
<b>Net earnings (loss)</b>	<b>6,509</b>	(3,483)	<b>(49,750)</b>	140,863

<sup>(1)</sup> Operating income and funds flow from operations are non-GAAP terms. Operating income is equal to petroleum and natural gas sales minus royalties, operating costs and transportation costs, while funds flow from operations represents cash flow from operating activities before net changes in working capital accounts. Refer to the advisory on Non-GAAP measures at the end of this MD&A.

<sup>(2)</sup> See Risk Management section below.

<sup>(3)</sup> Excluding the non-cash portion of the expenditures and including asset retirement obligations paid.

<sup>(4)</sup> Net of asset retirement obligations paid.

<sup>(5)</sup> See Income Taxes section below.

Cash Flow From Operations Per Unit of Sales Volume (Dollar per Boe)	Three Months Ended		Years Ended	
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2007	Dec. 31, 2006
Gross revenue before financial instruments <sup>(1)</sup>	<b>47.84</b>	40.76	<b>46.65</b>	47.42
Royalties	<b>(8.62)</b>	(7.69)	<b>(9.59)</b>	(11.17)
Operating costs	<b>(12.98)</b>	(12.79)	<b>(11.61)</b>	(9.97)
Asset retirement obligation expenditures	<b>(0.29)</b>	(0.03)	<b>(0.16)</b>	(0.18)
General and administrative expenses <sup>(2)</sup>	<b>(1.16)</b>	(0.98)	<b>(1.51)</b>	(0.93)
Interest and financing charges	<b>(2.57)</b>	(2.72)	<b>(2.73)</b>	(1.47)
Exploration expenditures	<b>(0.11)</b>	(0.11)	<b>(0.11)</b>	(0.08)
Realized gain (loss) on financial instruments	<b>(2.13)</b>	(0.80)	<b>1.50</b>	5.52
<b>Funds flow from operations<sup>(3)</sup></b>	<b>19.98</b>	15.64	<b>22.44</b>	29.14
Net change in operating working capital	<b>(2.79)</b>	9.48	<b>1.67</b>	(0.29)
<b>Cash flow from operating activities</b>	<b>17.19</b>	25.12	<b>24.11</b>	28.85

<sup>(1)</sup> Net of transportation costs and including other income.

<sup>(2)</sup> Excluding non-cash unit and stock-based compensation expense.

<sup>(3)</sup> Refer to the advisories on non-GAAP measures and numerical references at the end of this MD&A.

## Operating Income Items

<b>Fourth Quarter 2007 vs. Third Quarter 2007</b> (In thousand dollars except as otherwise indicated)	<b>Q4 2007</b>	<b>Q3 2007</b>	<b>Increase (Decrease)</b>	
			<b>Value</b>	<b>%</b>
Average sales volumes:				
Natural gas (Mcf/d)	<b>97,858</b>	96,293	1,565	2
Oil and natural gas liquids (Bbl/d)	<b>4,734</b>	3,726	1,008	27
Total (Boe/d)	<b>21,044</b>	19,775	1,269	6
Average realized prices before financial instruments and transportation:				
Natural gas (\$/Mcf)	<b>6.68</b>	5.83	0.85	15
Oil and natural gas liquids (\$/Bbl)	<b>80.77</b>	75.54	5.23	7
Average realized prices after financial instruments but before transportation:				
Natural gas (\$/Mcf)	<b>6.68</b>	5.83	0.85	15
Oil and natural gas liquids (\$/Bbl)	<b>71.30</b>	71.31	(0.01)	—
Petroleum and natural gas sales before financial instruments:				
Natural gas	<b>60,129</b>	51,624	8,505	16
Oil and natural gas liquids	<b>35,181</b>	25,896	9,285	36
Total petroleum and natural gas sales before financial instruments	<b>95,310</b>	77,520	17,790	23
Royalties	<b>(16,687)</b>	(13,990)	2,697	19
Operating costs	<b>(25,135)</b>	(23,265)	1,870	8
Transportation costs	<b>(3,368)</b>	(3,750)	(382)	(10)
Operating income <sup>(1)</sup>	<b>50,120</b>	36,515	13,605	37

(1) Refer to the advisories on non-GAAP measures at the end of this MD&A.

**Petroleum and Natural Gas Sales** – Natural gas sales, before financial instruments, increased by \$7.5 million due to higher average natural gas prices and \$1.0 million due to higher sales volumes. Oil and natural gas liquid sales, before financial instruments, also increased by \$7.5 million as a result of higher sales volumes and \$1.8 million due to higher average oil and natural gas liquid prices. Sales volumes in the fourth quarter were up subsequent to a plant turnaround and the repair of a line break in Kaybob which decreased sales volumes in the previous quarter. Fourth quarter sales volumes were 456 Boe/d below target (as presented in Trilogy's third quarter 2007 MD&A) as a result of unanticipated operational issues and freezing problems in late November and early December.

**Royalties** – Royalties increased in conjunction with the increase in petroleum and natural gas sales during the fourth quarter. As a percentage of petroleum and natural gas sales, royalties averaged 18 percent for the fourth and third quarters of 2007.

**Operating Costs** – The increase in operating costs is attributable partly to the increases in sales volumes and adjustments to processing fees paid to third parties. On a per unit basis, operating costs increased to \$12.98/Boe in the fourth quarter from \$12.79/Boe in the previous quarter. The fourth quarter average operating cost per unit of sales volume is \$2.48/Boe higher than target as a result of costs associated with maintenance work carried during the fourth quarter in Kaybob, and third party processing and gathering fee adjustments.

Annual 2007 vs. Annual 2006 (In thousand dollars except as otherwise indicated)	2007	2006	Increase (Decrease)	
			Value	%
Average sales volumes:				
Natural gas (Mcf/d)	<b>106,733</b>	118,322	(11,589)	(10)
Oil and natural gas liquids (Bbl/d)	<b>4,526</b>	4,970	(444)	(9)
Total (Boe/d)	<b>22,315</b>	24,691	(2,376)	(10)
Average realized prices before financial instruments and transportation:				
Natural gas (\$/Mcf)	<b>7.16</b>	7.52	(0.36)	(5)
Oil and natural gas liquids (\$/Bbl)	<b>70.60</b>	65.93	4.67	7
Average realized prices after financial instruments but before transportation:				
Natural gas (\$/Mcf)	<b>7.55</b>	8.67	(1.12)	(13)
Oil and natural gas liquids (\$/Bbl)	<b>68.75</b>	65.91	2.84	4
Petroleum and natural gas sales before financial instruments:				
Natural gas	<b>278,755</b>	324,603	(45,848)	(14)
Oil and natural gas liquids	<b>116,632</b>	119,605	(2,973)	(2)
Total petroleum and natural gas sales before financial instruments	<b>395,387</b>	444,208	(48,821)	(11)
Royalties	<b>(78,080)</b>	(100,637)	(22,557)	(22)
Operating costs	<b>(94,560)</b>	(89,874)	4,686	5
Transportation costs	<b>(15,554)</b>	(18,864)	(3,310)	(18)
Operating income <sup>(1)</sup>	<b>207,193</b>	234,833	(27,640)	(12)

<sup>(1)</sup> Refer to the advisories on non-GAAP measures at the end of this MD&A.

**Petroleum and natural gas sales** – Natural gas sales, before financial instruments, decreased by \$30.3 million due to lower sales volumes and \$15.5 million due to lower average natural gas prices. Oil and natural gas liquid sales, before financial instruments, decreased by \$11.5 million due to lower sales volumes, offset by an \$8.5 million increase as a result of higher average oil and natural gas liquid sales prices. Product sales volumes decreased in 2007 as a result mainly of the dispositions of the Marten Creek property during the second quarter and certain non-core assets in southern Alberta during the third quarter. In addition, natural declines and various operational issues including plant turnarounds in the South Kaybob and Grande Prairie areas contributed to the decline in production. The average annual sales volumes for 2007 were slightly below the target of 22,500 Boe/d as a result of decreased production in the fourth quarter.

**Royalties** – As a percentage of petroleum and natural gas sales, royalties averaged 20 percent in 2007 as compared to 23 percent in 2006. The decrease is attributable partly to the decline in natural gas prices, an increase in gas cost allowance credits applied against crown royalties in 2007 and the disposition of properties which were subject to higher crown royalty rates. Crown royalties on Alberta gas are calculated based on the Alberta Reference Price, which varies from Trilogy's realized corporate price, and this variation impacts the average royalty rate. In addition, various items, including gas cost allowance credits, impact the overall rate.

**Operating Costs** – The increase in operating costs in 2007 is attributable mainly to higher workover and maintenance costs and an increased cost of goods and services in the energy sector, which also resulted in a per unit increase to \$11.61/Boe in 2007 from \$9.97/Boe in 2006. The average operating cost per unit of sales volume is \$0.61/Boe higher than target mainly as a result of increased costs in the fourth quarter 2007 as discussed above.

## OTHER INCOME STATEMENT ITEMS

### Depletion and Depreciation Expense

	Three Months Ended		Years Ended	
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2007	Dec. 31, 2006
Reported amount (thousand dollars)	<b>34,450</b>	26,647	<b>123,705</b>	129,686
Expense per sales volume (\$/Boe)	<b>17.79</b>	14.65	<b>15.19</b>	14.39

Depletion and depreciation expense increased in the fourth quarter as compared to the previous quarter due mainly to an \$8.1 million property impairment loss recorded during the quarter. The reduction in the expected recoverable reserves attributable to certain petroleum and natural gas wells resulted in the impairment.

Depletion and depreciation expense decreased in 2007 on a full year basis as a result primarily of the sale of Marten Creek assets in May 2007 and certain non-core assets in southern Alberta in August 2007, which had higher depletion and depreciation rates, partially offset by a higher impairment loss. Depletion and depreciation expense on a per unit basis increased to \$15.19/Boe in 2007 from \$14.39/Boe in the previous year due mainly to decreased sales volumes impacting depreciation expense and impairment loss on a per unit basis.

### General and Administrative Expenses

General and administrative expenses include recoveries and unit-based compensation.

(In thousand dollars except as otherwise indicated)	Three Months Ended		Years Ended	
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2007	Dec. 31, 2006
Expenses before unit-based compensation and recoveries	<b>6,167</b>	5,699	<b>25,833</b>	24,276
Overhead recoveries	<b>(4,012)</b>	(3,922)	<b>(13,637)</b>	(16,194)
Expenses after recoveries and before unit-based compensation	<b>2,155</b>	1,777	<b>12,196</b>	8,082
Unit-based compensation	<b>(309)</b>	(421)	<b>23</b>	(113)
Reported amount	<b>1,846</b>	1,356	<b>12,219</b>	7,969
Expenses after recoveries and before unit-based compensation per sales volume (\$/Boe)	<b>1.11</b>	0.98	<b>1.50</b>	0.90

General and administrative expenses (after recoveries and before unit-based compensation) were slightly higher during the fourth quarter of 2007 compared to the previous quarter due primarily to an increase in rent expense relative to Trilogy's new office space.

On a year-to-date basis, general and administrative expenses (after recoveries and before unit-based compensation), both on a total and per unit of sales volume, were higher in 2007 compared to 2006 due primarily to the increase in personnel costs, lower recoveries resulting from decreased capital activity and higher office rent expense. These were partially offset by the decreases in fees paid to a related party for administrative and operating services, administration and corporate expenses and professional fees as a result of fewer special corporate projects carried out during the year.

The fluctuations in unit-based compensation expense are attributable primarily to the changes in the periodic revaluation of Trilogy's unit appreciation rights liability in reference to the market price of Trust Units. Unit-based compensation expense also includes the cash paid on exercised unit appreciation rights, and the amortization of the grant date fair market value of options issued under Trilogy's unit option plan and a related party's option plan issued to Trilogy employees as described in the notes to Trilogy's consolidated financial statements.

### Interest and Financing Charges

	Three Months Ended		Years Ended	
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2007	Dec. 31, 2006
Reported amount (thousand dollars)	4,977	4,944	22,219	13,272
Expense per sales volume (\$/Boe)	2.57	2.72	2.73	1.47

Interest and financing charges were relatively consistent during the fourth and third quarters of 2007. The increase in interest and financing charges from year to year is attributable primarily to higher average debt levels in 2007 compared to the previous year as additional debt was incurred in conjunction with the Blue Mountain acquisition at the end of 2006.

### Exploration Expenditures and Other

(in thousand dollars)	Three Months Ended		Years Ended	
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2007	Dec. 31, 2006
Exploration expenditures	2,263	4,308	10,918	25,142
Loss (gain) on disposition of property, plant and equipment	(670)	2,939	1,223	(12,277)
Accretion on asset retirement obligations	1,127	1,123	4,591	3,736

Exploration expenditures consist of dry hole costs, lease rentals and geological and geophysical costs. The change in exploration expenditures is due mainly to the fluctuation in dry hole costs from period to period and to the decline in capital spending. In addition, a significant portion of prior year's expenditures related to properties disposed of during 2007.

The loss on disposition of property, plant and equipment in 2007 relates mainly to a \$4.2 million loss from Trilogy's southern Alberta property disposition, net of a \$2.3 million gain on the sale of Marten Creek. The gain in 2006 pertains principally to the sale of Trilogy's 9.77 percent working interest in the Kaybob South Beaver Hill Lake Unit No. 1. The gain on disposition of property, plant and equipment in the fourth quarter pertains to the disposition of smaller assets and final adjustments on previously disposed properties.

The changes in accretion on asset retirement obligation are caused primarily by the changes in asset retirement obligation as a result of asset additions, dispositions and revisions in estimates.

## RISK MANAGEMENT

### Financial Risks

To protect cash flow against commodity price volatility, the Trust may use forward commodity price contracts that require financial settlement between counterparties. The financial instruments program is generally for periods of up to one year and would not exceed 50 percent of Trilogy's annual production volumes.

The Trust had financial commodity forward contracts outstanding as at December 31, 2007 pertaining to the sale of 1,000 Bbl/d of oil at a WTI Fixed Price of U.S.\$73.48/Bbl from January to December 2008 (also see Subsequent Events section above).

The Trust adopted new accounting standards on financial instruments as discussed under the New Accounting Pronouncements section below. The adoption of these new accounting standards did not result in a change in Trilogy's accounting for financial instruments using the fair value method.

The change in the fair value of outstanding financial instruments, which were classified as held-for-trading, is presented as 'unrealized gain (loss) on financial instruments' in the consolidated statements of earnings (loss) and other comprehensive income. Gains or losses arising from monthly settlement with counterparties are presented as a 'realized gain (loss) on financial instruments'. The amounts of unrealized and realized gain (loss) on financial instruments during the periods are as follows:

(In thousand dollars except as indicated)	Three Months Ended		Years Ended	
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2007	Dec. 31, 2006
Realized gain (loss) on financial instruments	(4,125)	(1,451)	12,179	49,735
Unrealized gain (loss) on financial instruments	(3,646)	(1,945)	(25,387)	21,814
Total gain (loss) on financial instruments	(7,771)	(3,396)	(13,208)	71,549
Realized gain (loss) on financial instruments per Boe (\$/Boe)	(2.13)	(0.80)	1.50	5.52

The mark-to-market accounting of financial instruments causes significant fluctuations in the gain (loss) on financial instruments due to the volatility of energy commodity prices. After all financial instrument gas contracts matured as at March 31, 2007, no further gas contracts were entered into by Trilogy during 2007. The remaining financial instrument crude oil contracts resulted in significantly lower realized and unrealized gains (losses) on financial instruments for the last three quarters of 2007.

Pursuant to the Services Agreement described under the *Related Party Transactions* section, a subsidiary of Paramount Resources Ltd. ("Paramount") performs marketing functions on behalf of the Trust. The Trust is exposed to credit risk from financial instruments to the extent of non-performance by third parties. Credit risks associated with possible non-performance by financial instrument counterparties are minimized by entering into contracts with only highly rated counterparties and third party credit risk is controlled with credit approvals, limits on exposures to any one counterparty, and monitoring procedures.

Production is sold to a variety of purchasers under normal industry sale and payment terms. The Trust's accounts receivable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal credit risk.

The Trust is also exposed to fluctuations in interest rates relative to its bank credit facilities as discussed below. In addition, foreign currency rate fluctuations may impact the Trust mainly due to its U.S. Dollar denominated financial instrument contracts with counterparties in addition to the normal conversions of U.S. Dollar denominated revenues into Canadian Dollar.

### Operational and Other Risks

Trilogy is subject to various risks and uncertainties including those relating to its operations, environment, and other risks as discussed in the *Advisories* and other sections of this MD&A. Trilogy mitigates these risks through the development of plans, processes and policies, and executing such plans, processes and policies as necessary.

## LIQUIDITY AND CAPITAL RESOURCES

(In thousand dollars)	Dec. 31, 2007	Dec. 31, 2006
Working capital deficit (including financial instruments and current portion of unit-based compensation)	<b>23,919</b>	61,210
Long-term debt	<b>326,496</b>	355,136
Unit-based compensation liability – long-term portion	—	1,171
Net debt <sup>(1)</sup>	<b>350,415</b>	417,517
Unitholders' equity	<b>382,005</b>	520,854
<b>Total</b>	<b>732,420</b>	938,371
Estimated appraised value of petroleum and natural gas assets <sup>(2)</sup>	<b>1,256,400</b>	1,411,800

<sup>(1)</sup> Refer to the *advisories* on non-GAAP measures at the end of this MD&A.

<sup>(2)</sup> Based principally on the net present value of net future cash flow (pre-tax) from Trilogy's petroleum and natural gas assets using a discount rate of 10 percent.

### Working Capital

The decrease in the working capital deficiency from \$61.2 million as at December 31, 2006 to \$23.9 million as at December 31, 2007 is due primarily to the repayment of the acquisition facility loan reducing the current portion of long-term debt to zero, and the decline of \$8.2 million in distributions payable. Also contributing to the decrease in working capital deficiency was the decline in accounts payable and accrued liabilities from \$72.9 million at December 31, 2006 to \$59.5 million at December 31, 2007 as a result of lower capital spending during the last quarter of 2007 as compared to the same quarter of 2006. These decreases in working capital deficiency were partially offset by the change in the value of outstanding financial instruments from an asset of \$18.4 million at December 31, 2006 to a liability of \$7.0 million at December 31, 2007, and a decrease in accounts receivable due mainly to lower accrued revenue.

The Trust's working capital deficiency is funded by cash flow from operations and draw-downs from the Trust's credit facilities.

### **Long-term Debt and Credit Facilities**

Long-term debt represents the outstanding draws from Trilogy's revolving credit and working capital facility described in the notes to Trilogy's consolidated financial statements.

Trilogy's bank debt outstanding from its \$370 million revolving credit and working capital facility was \$326.5 million (before unamortized discount) as at December 31, 2007. The size of this committed credit facility is based primarily on the value of Trilogy's petroleum and natural gas assets. The revolving feature of the Trust's credit facility expires on March 28, 2008, if not extended. Pursuant to the terms of the credit agreement, Trilogy has requested a 364 days extension of the revolving phase. The Trust anticipates the request will be approved and the revolving phase of the credit facility will be extended to March 27, 2009. Upon the expiry of the credit agreement's revolving phase, amounts outstanding will have a term maturity date of one additional year.

### **Unit-based Compensation Liability**

Unit-based compensation liability represents the accrued compensation expense relating to the unit appreciation plan as discussed in the notes to Trilogy's consolidated financial statements. This liability is the estimated value of outstanding unit appreciation rights as at the balance sheet dates, which consists of the appreciation value of vested unit rights and the amortized appreciation value of unvested unit rights over their vesting period. This amount is periodically revalued with respect to outstanding unit rights in conjunction with fluctuations in the market price of Trust Units and the increase in the elapsed period of unvested unit rights. All outstanding unit appreciation rights granted under Trilogy's unit appreciation rights plan expire on December 15, 2008. There is no current intention to make further grants of unit appreciation rights.

## Contractual Obligations

In addition to the financial contracts discussed in Risk Management section, the Trust has the following contractual financial obligations as at December 31, 2007:

(In thousand dollars)	Payable in				
	2008	2009 - 2010	2011 - 2012	After 2012	Total
<b>On or partially on balance sheet:</b>					
Long-term debt <sup>(1)</sup>	—	326,496	—	—	326,496
Unit-based compensation liability <sup>(2)</sup>	3,389	—	—	—	3,389
Asset retirement obligations <sup>(3)</sup>	1,300	2,920	3,407	148,786	156,413
<b>Off balance sheet:</b>					
Estimated interest on long-term debt <sup>(1)</sup>	19,590	24,487	—	—	44,077
Pipeline transportation commitments <sup>(4)</sup>	8,820	15,404	14,675	21,820	60,719
Office premises operating leases <sup>(5)</sup>	2,218	4,979	6,456	14,526	28,179
Vehicle and other operating leases	1,133	1,297	—	—	2,430
Capital expenditure commitment	444	—	—	—	444
<b>Total</b>	<b>36,894</b>	<b>375,583</b>	<b>24,538</b>	<b>185,132</b>	<b>622,147</b>

<sup>(1)</sup> Debt has been assumed to be payable within 2 years based on the existing terms of the underlying revolving credit facility solely for purposes of this contractual obligations table. Interest on long-term debt was calculated based on an approximate interest rate of 6 percent per annum applied to the outstanding balance of debt as at December 31, 2007.

<sup>(2)</sup> The amount reflected for unit-based compensation liability represents the full intrinsic value of outstanding unit appreciation rights as at December 31, 2007. This is partially recorded on the consolidated balance sheet with respect to the amortized portion of the intrinsic value of unit rights based on the elapsed service period of the right holders.

<sup>(3)</sup> The contractual obligation relating to asset retirement obligation is undiscounted. The present value of such obligation is recorded on the Trust's consolidated balance sheet.

<sup>(4)</sup> Some of the pipeline transportation commitments are covered by letters of credit issued by the Trust totaling \$8.2 million as at December 31, 2007.

<sup>(5)</sup> Net of committed rental reimbursements through sub-lease arrangements.

## Trust Units, Options and Rights

In connection with Trilogy's distribution reinvestment plan ("DRIP"), 2,042,023 Trust Units were issued since the reinstatement of the DRIP for the monthly distributions for September 2007 through December 31, 2007.

Trilogy Trust had 94,608,704 Trust Units and 95,431,578 Trust Units outstanding as at December 31, 2007 and February 29, 2008, respectively. To the best of Trilogy's knowledge, the foreign ownership level is approximated to be 16 percent at December 31, 2007.

Outstanding unit options issued under Trilogy's unit option plan were 4,106,500 unit options as at December 31, 2007 and 4,156,500 unit options as at February 29, 2008, of which 176,500 unit options were exercisable as at those dates. Outstanding unit rights issued under Trilogy's unit appreciation plan were 1,232,250 unit rights as at December 31, 2007 and 1,219,250 unit rights as at February 29, 2008, of which 828,250 unit rights and 815,250 unit rights were exercisable as at those dates, respectively.

## Distributions

(In thousand dollars except where stated otherwise)	Three Months Ended		Years Ended	
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2007	Dec. 31, 2006
Funds flow from operations <sup>(1)</sup>	<b>38,674</b>	28,477	<b>182,756</b>	262,510
Net changes in operating working capital	<b>(5,400)</b>	17,286	<b>13,597</b>	(2,652)
Cash flow from operations	<b>33,274</b>	45,763	<b>196,353</b>	259,858
Net earnings (loss)	<b>6,509</b>	(3,483)	<b>(49,750)</b>	140,863
Distributions declared <sup>(2)</sup>	<b>22,530</b>	27,770	<b>105,841</b>	224,678
Distributions declared per Trust Unit (in full amount)	<b>0.24</b>	0.30	<b>1.14</b>	2.48
Excess of cash flow from operations over distributions declared	<b>10,744</b>	17,993	<b>90,512</b>	35,180
Excess of distributions declared over net earnings/loss	<b>(16,021)</b>	(31,253)	<b>(155,591)</b>	(83,815)

(1) Refer to the advisories on non-GAAP measures at the end of this MD&A.

(2) Including amounts reinvested under the distribution reinvestment plan.

Trilogy's distributions to its Unitholders are funded by cash flow from operating activities with the remaining cash directed towards capital spending and debt repayments. To the extent that the excess of cash flow from operations over distributions is not sufficient to cover capital spending, the shortfall is funded by draw downs from Trilogy's credit facilities. Trilogy intends to provide distributions to Unitholders that are sustainable to the Trust considering its liquidity and long-term operational strategy. Since the level of distributions is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future distributions cannot be assured.

Distributions declared to Unitholders may exceed net earnings generated during the period. Net earnings may not be an accurate indicator of Trilogy's liquidity, as it may be comprised of significant charges not involving cash including future income tax and depletion and depreciation related expenses. The significant future income tax expense in 2007 is a one-time non-cash charge representing Trilogy's estimated future income tax liability after December 31, 2010. Any future income tax adjustment will result principally from changes in the tax pools versus accounting value of Trilogy's assets and liabilities in addition to changes in statutory tax rates. Trilogy will be subject to income tax in 2011 which may alter distribution levels at that time. Also, dry hole costs and depletion and depreciation expense is not an appropriate measure of cost of productive capacity maintenance (see next paragraph). In instances where distributions exceed net earnings, a portion of the cash distribution to Unitholders may represent an economic return of capital.

Trilogy's productive capacity represents its ability to exploit its petroleum and natural gas reserves, and it is measured in terms of the average barrels of oil equivalent it produces and sells in any given period (refer to the discussions on actual sales volumes under the Results of Operations section above). Maintenance of Trilogy's productive capacity involves the efficient operation and maintenance of its production and processing facilities to enable a steady flow of oil and natural gas, its ability to access third party processing and transportation, and the effective management of its petroleum and natural gas reserves base, including the replacement of produced reserves at low finding and development costs. Trilogy's productive capacity may be affected by external factors beyond its control including, but not limited to, weather conditions,

general economic conditions, government laws and regulations and access to non-operated facilities. See the **Advisories** section of this MD&A for other risks and uncertainties impacting Trilogy's operations.

Trilogy's disclosures on distributions comply, in all material respects, with applicable existing guidance on MD&A preparation and disclosure relating to distributions.

### Wells Drilled

(Number of wells)	Three Months Ended				Years Ended			
	Dec. 31, 2007		Sept. 30, 2007		Dec. 31, 2007		Dec. 31, 2006	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>						
Natural gas	8.0	3.7	14.0	9.7	52.0	34.6	67.0	53.3
Oil	3.0	3.0	2.0	0.5	7.0	3.5	—	—
Dry	—	—	2.0	—	4.0	1.0	18.0	15.0
<b>Total</b>	<b>11.0</b>	<b>6.7</b>	<b>18.0</b>	<b>10.2</b>	<b>63.0</b>	<b>39.1</b>	<b>85.0</b>	<b>68.3</b>

(1) "Gross" wells means the number of wells in which Trilogy has a working interest or a royalty interest.

(2) "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Trilogy's percentage of working interest.

### Capital Expenditures

(In thousand dollars)	Three Months Ended		Years Ended	
	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2007	Dec. 31, 2006
Land	509	1,065	4,383	20,212
Geological and geophysical	841	128	2,136	2,132
Drilling	7,795	12,657	63,655	103,229
Production equipment and facilities	8,748	5,304	25,565	44,578
<b>Exploration and development expenditures</b>	<b>17,893</b>	<b>19,154</b>	<b>95,739</b>	<b>170,151</b>
Proceeds received from property dispositions	(2,200)	(24,530)	(100,702)	(12,489)
Property acquisitions <sup>(1)</sup>	—	—	—	401
Corporate assets	(177)	4,014	6,221	1,016
<b>Net capital expenditures (surplus)</b>	<b>15,516</b>	<b>(1,362)</b>	<b>1,258</b>	<b>159,079</b>

(1) Excluding corporate acquisitions.

Exploration and development expenditures decreased in both periods of 2007 as Trilogy reduced its capital expenditures program in light of the reduction in natural gas prices and continuing high costs. Also in 2006, Trilogy accelerated work on some projects to ensure access to equipment resulting in higher capital expenditures as compared to 2007. The proceeds received from property dispositions relate principally to the sale of the southern Alberta and Marten Creek assets for the year ended December 31, 2007, and the disposition of an interest in Kaybob South Beaver Hill Lake Unit No. 1 for the year ended December 31, 2006.

## INCOME TAXES

In 2007, the Government of Canada enacted legislation imposing trust-level income taxes on publicly traded income trusts at a rate comparable to a combined federal and provincial corporate tax rate for the taxation years commencing January 1, 2011. Under this tax legislation, distributions from publicly traded income trusts would be treated effectively as dividends to the trust unitholders and the distribution tax would apply in respect of distributions of income as opposed to returns of capital. Trilogy's effective tax rate under the legislation is currently anticipated to be 29.5 percent in 2011 and 28 percent for 2012 onward.

Trilogy continues to evaluate any ongoing developments relating to the new legislation. Trilogy does not expect to make significant changes to its trust structure at this time given the efficiency and value to unitholders of Trilogy's existing structure.

Pursuant to the enactment of the new tax legislation, Trilogy recorded a future income tax liability of \$69.1 million as at December 31, 2007 with a corresponding non-cash future income tax expense recognized in earnings for the year then ended. This amount is lower than the future income tax provision calculated as at the end of the third quarter 2007 due primarily to a reduction in the future tax rate in the fourth quarter. Prior to this new legislation, Trilogy did not record any tax provision given its existing structure. Future income tax has no impact on Trilogy's cash flow from operations.

Trilogy has estimated its future income taxes based on future assumptions including: operational estimates, accounting and tax pool claims and cash distributions assuming no material change to its current organizational structure is to be made prior to January 1, 2011 (also see *Critical Accounting Estimates and Advisories* sections). As currently interpreted, Canadian GAAP does not permit the incorporation of any assumptions related to a change in organizational structure into Trilogy's estimate of future income taxes until such structures are given legal effect.

As at December 31, 2007, tax pools were estimated to be \$148 million for tangibles and \$183 million for intangibles.

## RELATED PARTY TRANSACTIONS

As described in more detail in the notes to the Trust's consolidated financial statements for the year ended December 31, 2007, the following is a summary of the Trust's transactions with related parties:

- Paramount Resources, a wholly-owned subsidiary of Paramount (which owns 18.78 percent of the outstanding Trust Units at December 31, 2007), provides administrative and operating services to the Trust and its subsidiaries, pursuant to an agreement dated April 1, 2005, to assist Trilogy Energy Ltd. in carrying out its duties and obligations as general partner of Trilogy Energy LP and as the administrator of the Trust and Trilogy Holding Trust. The amount of expenses paid and accrued for such services was \$0.8 million for the year ended December 31, 2007.
- In addition, the Trust and Paramount also had transactions with each other arising from normal business activities.

## QUARTERLY FINANCIAL INFORMATION

(In thousand dollars except per unit amounts)	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Revenue after financial instruments, royalties and other income	<b>71,527</b>	60,521	87,603	84,643
Earnings (loss) before tax	<b>(969)</b>	(7,811)	18,734	9,351
Net earnings (loss)	<b>6,509</b>	(3,483)	(62,127)	9,351
Earnings (loss) per Trust Unit (in full amounts):				
Basic	<b>0.07</b>	(0.04)	(0.67)	0.10
Diluted	<b>0.07</b>	(0.04)	(0.67)	0.10
(In thousand dollars except per unit amounts)	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Revenue after financial instruments, royalties and other income	92,306	111,540	89,450	123,833
Earnings before tax	24,582	38,338	19,819	58,124
Net earnings	24,582	38,338	19,819	58,124
Earnings per Trust Unit (in full amounts):				
Basic	0.27	0.42	0.22	0.68
Diluted	0.27	0.42	0.22	0.68

Please refer to the Results of Operations and other sections of this MD&A for the discussions on changes from the third quarter to the fourth quarter of 2007, and to Trilogy's previously issued interim and annual MD&A for changes in prior quarters.

## OUTLOOK

Trilogy's guidance for the year ending December 31, 2008 based upon, but not limited, to current pricing assumptions and capital expenditure budget is as follows:

Average production	—	21,500 Boe/d
Capital expenditures	—	\$100 million
Operating costs	—	\$10.50/Boe

The Trust's earnings and cash flow from operations are highly sensitive to changes in commodity prices, interest and exchange rates, government laws and regulations, weather and other factors that are beyond the control of the Trust. The uncertainty on cash flow from operations ultimately impacts Trilogy's capital expenditure budget. Due to these and other risks and uncertainties described in the *Advisories* section of this MD&A, actual results could vary significantly from the above guidance. The Trust will assess its results throughout the year and revise estimates and/or strategy as necessary to reflect current information.

Trilogy provided 2007 outlook information in its 2006 annual MD&A and updated such information quarterly in each of the 2007 interim MD&A. This MD&A discusses the variances between actual results and the outlook included in the third quarter 2007 MD&A. The discussions relate to production volumes and operating costs and are presented in the quarterly and annual operating income comparisons above.

## **CRITICAL ACCOUNTING ESTIMATES**

The historical information in this MD&A is based primarily on the Trust's consolidated financial statements, which have been prepared in Canadian Dollars in accordance with GAAP. The application of GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities, if any, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Trilogy bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions.

The following is a discussion of the critical accounting estimates that are inherent in the preparation of the Trust's December 31, 2007 consolidated financial statements and notes thereto.

### **Accounting for Petroleum and Natural Gas Properties**

Under the successful efforts method of accounting, the Trust capitalizes acquisition costs of oil and gas properties and the costs of drilling and equipping development wells and successful exploratory wells. Exploration expenditures, including geological and geophysical costs, lease rentals on producing properties, and exploratory dry holes are charged to earnings in the period incurred. Certain costs of exploratory wells are capitalized pending determination that proved reserves have been found. Such determination is dependent upon, among other things, the results of planned drilling and completion of additional wells and the cost of required capital expenditures to produce the reserves found.

The application of the successful efforts method of accounting requires management's judgment to determine the proper designation of wells as either developmental or exploratory, which may ultimately determine the accounting treatment of the costs incurred. The results of a drilling operation can take considerable time to analyze, and the discovery of proved reserves requires both judgment and the application of industry experience. The evaluation of petroleum and natural gas leasehold acquisition costs also requires management's judgment to evaluate the fair value of exploratory costs related to drilling activity in a given area.

### **Estimates of Reserves**

Estimates of the Trust's reserves are prepared in accordance with guidelines established by the Alberta Securities Commission. Reserve engineering is a subjective process of estimating underground accumulations of petroleum and natural gas that cannot be measured in an exact manner. The process relies on interpretations of available geological, geophysical, engineering and production data. The accuracy of a reserve estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions and the judgment of the persons preparing the estimate.

Trilogy's reserve information is based on estimates prepared by its independent petroleum consultants. Estimates prepared by others may be different than these estimates. Because these estimates depend on many assumptions, all of which may differ from actual results, reserve estimates may be different from the quantities of petroleum and natural gas that are ultimately recovered. In addition, the results of drilling, testing and production after the date of an estimate may justify revisions to the original estimates. Trilogy intends that 100 percent of its annual reserves information is evaluated by independent petroleum consultants.

The present value of future net revenues should not be assumed to be the current market value of the Trust's estimated reserves. Actual future prices, costs and reserves may be materially higher or lower than the prices, costs and reserves used for the future net revenue calculations.

The estimates of reserves impact depletion, dry hole expenses, future income taxes and asset retirement obligations. If reserve estimates decline, the rate at which the Trust records depletion increases, reducing net earnings. In addition, changes in reserve estimates may impact the outcome of Trilogy's assessment of its petroleum and natural gas properties for impairment as discussed next.

### **Impairment of Petroleum and Natural Gas Properties**

The Trust reviews its proved properties for impairment annually on a field basis. For each field, an impairment provision is recorded whenever events or circumstances indicate that the carrying value of those properties may not be recoverable. The impairment provision is based on the excess of carrying value over fair value. Fair value is determined as the present value of the estimated future net revenues from production of total proved and probable petroleum and natural gas reserves, as estimated by the Trust on the balance sheet date. Reserve estimates, as well as estimates for petroleum and natural gas prices and production costs may change, and there can be no assurance that impairment provisions will not be required in the future.

Unproved leasehold costs and exploratory drilling in progress are capitalized and reviewed periodically for impairment. Costs related to impaired prospects or unsuccessful exploratory drilling are charged to earnings. Acquisition costs for leases that are not individually significant are charged to earnings as the related leases expire. Further impairment expense could result if petroleum and natural gas prices decline in the future or if negative reserve revisions are recorded, as it may no longer be economic to develop certain unproved properties. Management's assessment of, among other things, the results of exploration activities, commodity price outlooks and planned future development and sales, impacts the amount and timing of impairment provisions.

### **Asset Retirement Obligations**

The asset retirement obligations recorded in the consolidated financial statements are based on an estimate of the fair value of the total costs for future site restoration and abandonment of the Trust's petroleum and natural gas properties. This estimate is based on management's analysis of production structure, reservoir characteristics and depth, market demand for equipment, currently available procedures, the timing of asset retirement expenditures and discussions with construction and engineering consultants. Estimating these future costs requires management to make estimates and judgments that are subject to future revisions based on numerous factors, including changes in technology and political and regulatory environments.

### **Unit-Based Compensation**

Trilogy accounts for its unit option plan using the fair value method. The determination of the fair value of unit options requires management to make assumptions about risk-free interest rates and expected volatility, and distribution level at the time of the granting of unit options. Such assumptions may change from time to time and the estimated fair value of unit options calculated at the grant date may differ on subsequent dates. The fair value of outstanding unit options being amortized to general and administrative expense is not revised for any changes subsequent to the grant date.

## **Future Income Tax**

The recording of future income tax for Trilogy involves the use of various assumptions to estimate the amounts and timing of the reversals of temporary differences between assets and liabilities recognized for accounting and tax purposes before and after January 1, 2011. It also involves the estimation of the effective tax rates for future fiscal years. The assumptions used (which include, but are not limited to, estimated results of operations, tax pool claims, accounting deductions and cash distributions) are based on management's current estimates and will likely change in future periods. Accordingly, the estimate of future income tax will change in future periods and will differ from the current estimate.

## **NEW ACCOUNTING PRONOUNCEMENTS**

### **Changes in Accounting Policies**

Effective January 1, 2007, the Trust has adopted the new accounting standards on financial instruments, other comprehensive income, equity and accounting changes as described in note 2 to the consolidated financial statements. These changes did not impact the reported amounts in Trilogy's financial statements.

### **Future Accounting Changes**

The Canadian Institute of Chartered Accountants (the "CICA") issued Handbook Sections 3862 (*Financial Instruments – Disclosures*), 3863 (*Financial Instruments – Presentation*) and 1535 (*Capital Disclosures*), which will be effective January 1, 2008. These new accounting standards will require the Trust to provide additional disclosures relating to financial instruments, including hedging instruments, and the Trust's capital. Handbook Section 3863 does not change the presentation provided in Section 3861 (*Financial Instruments – Disclosure and Presentation*) which it replaces. It is anticipated that the adoption of these new accounting standards will not impact the amounts reported in the Trust's financial statements as these standards primarily relate to disclosures.

In conjunction with a decision to converge financial reporting for Canadian publicly accountable enterprises to International Financial Reporting Standards (IFRS), the Accounting Standards Board (Canada) issued in 2007 an implementation plan to incorporate IFRS into Canadian GAAP. The implementation plan sets a changeover date of January 1, 2011. Trilogy is monitoring and assessing the impact of the Canadian GAAP and IFRS convergence.

## **FINANCIAL REPORTING AND DISCLOSURE CONTROLS**

Management has assessed the effectiveness of Trilogy's disclosure controls and procedures as at December 31, 2007, and has concluded that such controls and procedures were effective as at that date. In addition, there were no material changes to Trilogy's internal controls over financial reporting since the most recent interim period.

## ADVISORIES

### Forward-looking Statements and Information

Certain statements included in this document constitute forward-looking statements under applicable securities legislation. Forward-looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "budget" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements or information in this document include but are not limited to capital expenditures, business strategy and objectives, net revenue, future production levels, development plans and the timing thereof, operating and other costs, royalty rates etc.

Such forward-looking statements or information are based on a number of assumptions which may prove to be incorrect. In addition to other assumptions identified in this document, assumptions have been made regarding, among other things:

- the ability of Trilogy to obtain equipment, services and supplies in a timely manner to carry out its activities;
- the ability of Trilogy to market oil and natural gas successfully to current and new customers;
- the timing and costs of pipeline and storage facility construction and expansion and the ability to secure adequate product transportation;
- the timely receipt of required regulatory approvals;
- the ability of Trilogy to obtain financing on acceptable terms;
- the timing and estimate of reversals of temporary differences between assets and liabilities recorded for accounting and tax purposes;
- currency, exchange and interest rates; and
- future oil and gas prices.

Although Trilogy believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because Trilogy can give no assurance that such expectations will prove to be correct. Forward-looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Trilogy and described in the forward-looking statements or information. These risks and uncertainties include but are not limited to:

- the ability of management to execute its business plan;
- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- risks and uncertainties involving geology of oil and gas deposits;
- risks inherent in Trilogy's marketing operations, including credit risk;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to future production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- Trilogy's ability to secure adequate product processing, transmission and transportation;
- Trilogy's ability to enter into or renew leases;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing, including Trilogy's ability to extend its credit facility on an ongoing basis;

- the ability of Trilogy to add production and reserves through development and exploration activities;
- weather conditions;
- general economic and business conditions;
- the possibility that government policies, regulations or laws may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments and change to royalty regimes;
- imprecision in estimates of product sales, tax pools, tax shelter, tax deductions available to Trilogy, changes to tax legislation and regulation applicable to Trilogy, and timing and amounts of reversals of temporary differences between assets and liabilities recognized for accounting and tax purposes.
- uncertainty regarding aboriginal land claims and co-existing with local populations;
- risks associated with existing and potential future law suits and regulatory actions against Trilogy;
- hiring/maintaining staff;
- the impact of market competition; and
- other risks and uncertainties described elsewhere in this document or in Trilogy's other filings with Canadian securities authorities.

The forward-looking statements or information contained in this document are made as of the date hereof and Trilogy undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

### **Non-GAAP Measures**

In this document, Trilogy uses the terms "funds flow from operations", "operating income" and "net debt", collectively the "Non-GAAP measures", as indicators of Trilogy's financial performance. The Non-GAAP measures do not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and, therefore are unlikely to be comparable to similar measures presented by other issuers.

"Funds flow from operations" refers to the cash flow from operating activities before net changes in operating working capital. The most directly comparable measure to "funds flow from operations" calculated in accordance with GAAP is the cash flow from operating activities. "Funds flow from operations" can be reconciled to cash flow from operating activities by adding (deducting) the net change in working capital as shown in the consolidated statements of cash flows.

"Operating income" is equal to petroleum and natural gas sales minus royalties, operating costs, and transportation costs. "Net debt" is calculated as current liabilities minus current assets plus long-term debt and unit-based compensation liability. The components described for "operating income" and "net debt" can be derived directly from Trilogy's consolidated financial statements. Management believes that the Non-GAAP measures provide useful information to investors as indicative measures of performance.

Investors are cautioned that the Non-GAAP measures should not be considered in isolation or construed as alternatives to their most directly comparable measure calculated in accordance with GAAP, as set forth above, or other measures of financial performance calculated in accordance with GAAP.

## **Numerical References**

All references in this document are to Canadian Dollars unless otherwise indicated.

The columns on some tables in this document may not add due to rounding.

This document contains disclosure expressed as "Boe", "MBoe", "Boe/d", "Mcf", "Mcf/d", "MMcf", "MMcf/d", "Bcf", "Bbl", and "Bbl/d". All oil and natural gas equivalency volumes have been derived using the ratio of six thousand cubic feet of natural gas to one barrel of oil. Equivalency measures may be misleading, particularly if used in isolation. A conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

## **ADDITIONAL INFORMATION**

Trilogy is a petroleum and natural gas-focused Canadian energy trust. Trilogy's Trust Units are listed on the Toronto Stock Exchange under the symbol "TET.UN". Additional information about Trilogy, including Trilogy's Annual Information Form, is available at [www.sedar.com](http://www.sedar.com) or at Trilogy's website [www.triogyenergy.com](http://www.triogyenergy.com).



## MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Trilogy Energy Trust ("Trilogy") are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The relevant financial information contained elsewhere in this annual report is consistent with the consolidated financial statements.

Management has the overall responsibility for internal controls and maintains a system of internal controls that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report Trilogy's operating and financial results and that Trilogy's assets are safeguarded.

The Board of Directors has approved the information contained in the consolidated financial statements. The Board of Directors fulfills its responsibility regarding the consolidated financial statements through its Audit Committee, which is comprised of independent directors. The Audit Committee meets at least quarterly with management and the external auditors to ensure that management's responsibilities are properly discharged and to review the consolidated financial statements. The Audit Committee reports its findings to the Board of Directors for consideration when approving the annual consolidated financial statements for issuance to the Unitholders. The Audit Committee also considers, for review by the Board of Directors and approval by the Unitholders, the engagement or re-appointment of external auditors.

PricewaterhouseCoopers LLP, an independent firm of chartered accountants, was appointed by a vote of Unitholders at Trilogy's last annual meeting to audit the consolidated financial statements and provide an independent opinion. PricewaterhouseCoopers LLP have full and free access to the Audit Committee and management.

*/s/* **J. H. T. Riddell**  
**J. H. T. Riddell**  
President and Chief Executive Officer

*/s/* **M. G. Kohut**  
**M. G. Kohut**  
Chief Financial Officer

February 29, 2008

PricewaterhouseCoopers LLP  
**Chartered Accountants**  
111 5 Avenue SW, Suite 3100  
Calgary, Alberta  
Canada T2P 5L3  
Telephone +1 (403) 509 7500  
Facsimile +1 (403) 781 1825

## AUDITORS' REPORT

February 29, 2008

### **To the Unitholders of Trilogy Energy Trust**

We have audited the consolidated balance sheets of **Trilogy Energy Trust** as at December 31, 2007 and 2006 and the consolidated statements of earnings (loss) and other comprehensive income, unitholders' equity, and cash flows for each of the years in the two year period ended December 31, 2007. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2007 in accordance with Canadian generally accepted accounting principles.

*/s/ PricewaterhouseCoopers LLP*  
**Chartered Accountants**

# CONSOLIDATED FINANCIAL STATEMENTS

## TRILOGY ENERGY TRUST

### Consolidated Balance Sheets

(In thousand dollars)

	As at December 31,	
	2007	2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Accounts receivable (note 11)	\$ 51,603	\$ 68,732
Financial instruments (note 10)	—	18,424
Prepaid expenses	656	1,213
	<b>52,259</b>	88,369
<b>Property, plant and equipment</b> (note 4)	<b>721,756</b>	842,042
<b>Future income taxes</b> (note 13)	<b>13,705</b>	—
<b>Goodwill</b> (note 4)	<b>140,471</b>	152,323
	<b>\$ 928,191</b>	\$ 1,082,734
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 11)	\$ 59,500	\$ 72,898
Distributions payable (notes 8 and 11)	6,623	14,811
Financial instruments (note 10)	6,963	—
Unit-based compensation liability (note 9)	3,092	4,470
Current portion of long-term debt (note 5)	—	57,400
	<b>76,178</b>	149,579
<b>Long-term debt – net of current portion</b> (note 5)	<b>326,496</b>	355,136
<b>Unit-based compensation liability – net of current portion</b> (note 9)	<b>—</b>	1,171
<b>Asset retirement obligations</b> (note 6)	<b>60,752</b>	55,994
<b>Future income taxes</b> (note 13)	<b>82,760</b>	—
	<b>470,008</b>	412,301
<b>Unitholders' equity</b>		
Unitholders' capital (note 7)	704,100	689,816
Contributed surplus (note 9)	5,558	3,100
Accumulated deficit after distributions	(327,653)	(172,062)
	<b>382,005</b>	520,854
	<b>\$ 928,191</b>	\$ 1,082,734
<b>Commitments and contingencies</b> (notes 10 and 12)		

See accompanying notes to consolidated financial statements.

On behalf of the Board

/s/ R. M. MacDonald  
**R. M. MacDonald**  
 Director

/s/ M. H. Dilger  
**M. H. Dilger**  
 Director

# TRILOGY ENERGY TRUST

## Consolidated Statements of Earnings (Loss) and Other Comprehensive Income

(In thousand dollars except as otherwise indicated)

	Years Ended December 31,	
	2007	2006
<b>Revenue</b>		
Petroleum and natural gas sales	\$ 395,387	\$ 444,208
Realized gain on financial instruments (note 10)	12,179	49,735
Unrealized gain (loss) on financial instruments (note 10)	(25,387)	21,814
Royalties	(78,080)	(100,637)
Other income	195	2,009
	<b>304,294</b>	<b>417,129</b>
<b>Expenses</b>		
Operating	94,560	89,874
Transportation	15,554	18,864
General and administrative (notes 9 and 11)	12,219	7,969
Exploration expenditures	10,918	25,142
Loss (gain) on disposition of property, plant and equipment (note 4)	1,223	(12,277)
Accretion on asset retirement obligations (note 6)	4,591	3,736
Depletion and depreciation (note 4)	123,705	129,686
Interest and financing charges	22,219	13,272
	<b>284,989</b>	<b>276,266</b>
<b>Earnings before taxes</b>	<b>19,305</b>	140,863
<b>Future income taxes (note 13)</b>	<b>69,055</b>	—
<b>Net earnings (loss) / Total comprehensive income (loss)</b>	<b>\$ (49,750)</b>	\$ 140,863
<b>Earnings (loss) per Trust Unit</b> (in full amounts)		
— Basic	\$ (0.54)	\$ 1.56
— Diluted	\$ (0.53)	\$ 1.56
<b>Weighted average Trust Units outstanding</b> (in thousands)		
— Basic	92,832	90,321
— Diluted	93,050	90,330

See accompanying notes to consolidated financial statements.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Unitholders' Equity

(In thousand dollars except Trust Unit information)

	Year Ended December 31, 2007					
	Opening Balance	Net Loss	DRIP (Note 7)	Distributions Declared (Note 8)	Unit/Stock Option Amortization	Closing Balance
No. of Trust Units	92,566,681	—	2,042,023	—	—	94,608,704
Unitholders' capital (note 7)	\$ 689,816	\$ —	\$ 14,284	\$ —	\$ —	\$ 704,100
Accumulated earnings	243,379	(49,750)	—	—	—	193,629
Accumulated distributions	(415,441)	—	—	(105,841)	—	(521,282)
Accumulated other comprehensive income	—	—	—	—	—	—
Subtotal	(172,062)	(49,750)	—	(105,841)	—	(327,653)
Contributed surplus (note 9)	3,100	—	—	—	2,458	5,558
Total unitholders' equity	\$ 520,854	\$ (49,750)	\$ 14,284	\$ (105,841)	\$ 2,458	\$ 382,005

	Year Ended December 31, 2006					
	Opening Balance	Net Earnings	Issuance of Trust Units and DRIP (Note 7)	Distributions Declared (Note 8)	Unit/Stock Option Amortization	Closing Balance
No. of Trust Units	85,133,395	—	7,433,286	—	—	92,566,681
Unitholders' capital (note 7)	\$ 550,144	\$ —	\$ 139,672	\$ —	\$ —	\$ 689,816
Accumulated earnings	102,516	140,863	—	—	—	243,379
Accumulated distributions	(190,763)	—	—	(224,678)	—	(415,441)
Accumulated other comprehensive income	—	—	—	—	—	—
Subtotal	(88,247)	140,863	—	(224,678)	—	(172,062)
Contributed surplus (note 9)	468	—	—	—	2,632	3,100
Total unitholders' equity	\$ 462,365	\$ 140,863	\$ 139,672	\$ (224,678)	\$ 2,632	\$ 520,854

See accompanying notes to consolidated financial statements.

**TRILOGY ENERGY TRUST**  
**Consolidated Statements of Cash Flows**  
(In thousand dollars)

	<b>Years Ended December 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating activities</b>		
Net earnings (loss)	\$ (49,750)	\$ 140,863
Add (deduct) non-cash and other items:		
Depletion and depreciation	123,705	129,686
Loss (gain) on disposition of property, plant and equipment	1,223	(12,277)
Exploration expenditures	9,903	24,386
Asset retirement obligation expenditures	(1,266)	(1,658)
Accretion on asset retirement obligations (note 6)	4,591	3,736
Future income tax expense (note 13)	69,055	—
Non-cash general and administrative recovery (note 9)	(92)	(412)
Unrealized loss (gain) on financial instruments (note 10)	25,387	(21,814)
Funds flow from operations	182,756	262,510
Net changes in operating working capital	13,597	(2,652)
<b>Cash flow from operating activities</b>	<b>196,353</b>	<b>259,858</b>
<b>Financing activities</b>		
Credit facilities – draws	377,309	948,799
Credit facilities – repayments	(465,039)	(643,586)
Distributions to unitholders (note 8)	(99,745)	(261,998)
<b>Cash flow provided by (used in) financing activities</b>	<b>(187,475)</b>	<b>43,215</b>
<b>Investing activities</b>		
Property, plant and equipment expenditures	(101,960)	(171,166)
Acquisitions	—	(141,456)
Proceeds on disposition of property, plant and equipment	100,702	12,489
Cash balance of acquired entity	—	6,904
Change in investing working capital	(7,620)	(9,844)
<b>Cash flow used in investing activities</b>	<b>(8,878)</b>	<b>(303,073)</b>
<b>Change in cash / cash, end of year</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Cash interest and financing charges paid</b>	<b>\$ 20,837</b>	<b>\$ 14,539</b>

See accompanying notes to consolidated financial statements.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### 1. GENERAL

Trilogy Energy Trust ("Trilogy" or the "Trust") is an open-ended unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to its Trust Indenture dated February 25, 2005, as amended and restated as of April 1, 2005 and May 9, 2006 and as amended from time to time. The Trust is managed by Trilogy Energy Ltd., the administrator of the Trust. The beneficiaries of the Trust are the holders of Trust Units (the "Unitholders").

The consolidated financial statements of Trilogy have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian Dollar.

### 2. CHANGES IN ACCOUNTING POLICIES

#### Financial Instruments, Other Comprehensive Income and Equity

On January 1, 2007, the Trust adopted the recommendations of the Canadian Institute of Chartered Accountants (the "CICA") Handbook Section 3855 (*Financial Instruments – Recognition and Measurement*) setting out comprehensive requirements for the recognition and measurement of financial instruments. Under this standard, the Trust recognizes a financial asset or liability only when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are, with certain exceptions, initially measured at fair value. After initial recognition, the measurement of financial assets vary depending on the category of the asset: financial assets held for trading (at fair value with the unrealized gains and losses on assets recorded in income), held-to-maturity investments (at amortized cost), loans and receivables (at amortized cost), and available-for-sale financial assets (at fair value with the unrealized gains or losses on assets recorded in other comprehensive income). Financial liabilities held for trading are subsequently measured at fair value while all other financial liabilities are subsequently measured at amortized cost using the effective interest method. Transaction costs on financial instruments are included in the fair value assessment of each financial asset and financial liability. Trilogy may choose to designate derivative instruments as hedges. To date, the Trust has not elected to apply hedge accounting. The Trust also adopted CICA Handbook Section 3861 (*Financial Instruments – Disclosure and Presentation*) governing the presentation and disclosure of financial instruments to complement Section 3855.

In conjunction with the adoption of the new standards on financial instruments described above, the Trust adopted on January 1, 2007 the recommendations of the CICA Handbook Section 1530 (*Comprehensive Income*) in respect of the reporting and display of comprehensive income. Comprehensive income is defined as the change in equity (net assets) of an enterprise during a period, from transactions and other events and circumstances, from non-owner sources. A statement of comprehensive income that presents net earnings and each component recognized in other comprehensive income is now included as part of the full set of financial statements for both interim and annual periods. Likewise, the Trust adopted the recommendations of the CICA Handbook Section 3251 (*Equity*) requiring the presentation of the components of equity and the changes in equity arising from each of the components. Trilogy now includes a separate statement of unitholders' equity as part of its full set of consolidated financial statements.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### Accounting Changes

The Trust adopted the CICA's revised Handbook Section 1506 (*Accounting Changes*) which establishes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. Effective January 1, 2007, Trilogy is now subject to the following recommendations for changes in accounting policies, changes in accounting estimates and correction of errors:

- Changes in accounting policy are applied retroactively unless doing so is impracticable, or the change in accounting policy is made on initial application of a primary source of GAAP in accordance with specific transitional provisions in that primary source of GAAP. A change in accounting estimate is generally recognized prospectively.
- Voluntary changes in accounting policy are only made if they result in the financial statements providing reliable and more relevant information. Material prior period errors are corrected retrospectively.
- New disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

The adoption of the new accounting standards described above did not affect Trilogy's consolidated financial statements for the year ended December 31, 2007 and the related comparative financial statements, other than the change in and/or new presentation of consolidated statements of earnings (loss) and other comprehensive income and unitholders' equity.

### Future Accounting Changes

The CICA issued Handbook Sections 3862 (*Financial Instruments – Disclosures*), 3863 (*Financial Instruments – Presentation*) and 1535 (*Capital Disclosures*), which will be effective January 1, 2008. These new accounting standards will require the Trust to provide additional disclosures relating to financial instruments, including hedging instruments, and the Trust's capital. Handbook Section 3863 does not change the presentation provided in Section 3861 (*Financial Instruments – Disclosure and Presentation*) which it replaces. It is anticipated that the adoption of these new accounting standards will not impact the amounts reported in the Trust's financial statements as these standards primarily relate to disclosures.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Consolidation**

These consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries. The Trust obtains all of the economic benefits of the operations of its operating subsidiaries.

#### **Property, Plant and Equipment**

The Trust follows the successful efforts method of accounting for petroleum and natural gas operations. Under this method, acquisition costs of oil and gas properties and the costs of drilling and equipping development wells and successful exploratory wells are capitalized. Exploration expenses, including geological and geophysical costs, lease rentals on properties and exploratory dry hole costs, are charged to earnings as incurred. The net costs of abandoned exploratory wells and surrendered leases are charged to earnings in the year of abandonment or surrender. Gains or losses are recognized on the disposition of property, plant and equipment.

Other property, plant and equipment are recorded at cost.

The net amount at which petroleum and natural gas costs on a property or project are carried is subject to an annual cost recovery test or as economic events dictate. An impairment loss is recognized when the carrying amount of the asset is less than the sum of the expected cash flows on an undiscounted basis. The amount of the impairment loss is then calculated as the difference between the carrying amount and the fair value of the asset. Fair value is calculated as the present value of estimated future cash flows.

#### **Depletion and Depreciation**

Capitalized costs of proved oil and gas properties are depleted using the unit-of-production method. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis. Successful exploratory wells and development costs are depleted over proved developed reserves while acquired resource properties with proved reserves are depleted over proved reserves. Acquisition costs of probable reserves are not depleted or amortized while under active evaluation for commercial reserves.

Depreciation of production equipment, gas plants and gathering systems is calculated using the straight-line method over their estimated useful life of 12 years. Depreciation of other property, plant and equipment is provided on a straight-line basis over the assets' estimated useful lives varying from three to 10 years.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### **Joint Operations**

Certain exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Trust's proportionate interest in such activities.

### **Asset Retirement Obligations**

The fair value of an asset retirement obligation is recognized in the period in which it is incurred or when a reasonable estimate of the fair value can be made. The asset retirement costs equal to the fair value of the retirement obligations are capitalized as part of the cost of the related long-lived asset and allocated to earnings on a basis consistent with depreciation and depletion. The liability associated with the asset retirement costs which is recorded initially at its present value is subsequently adjusted for the passage of time which is recognized as accretion expense in the statement of earnings. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligations reduce the asset retirement liability to the extent of the liability recorded. Differences between the actual costs incurred upon settlement of the asset retirement obligations and the liability recorded are recognized in earnings in the period in which the settlement occurs.

### **Goodwill**

Goodwill, which represents the excess of the purchase price over the fair value of net assets acquired, is not amortized and is assessed for impairment at least annually. Impairment is assessed by comparison of the fair value of the reporting unit, as to which goodwill is attributable, to the carrying value of the reporting unit's net assets, including goodwill. If the carrying value of the reporting unit's net assets exceeds the fair value of the reporting unit, the excess of the carrying value of goodwill over its fair value is the impairment amount, and is charged to earnings in the period the impairment is identified.

When a portion of a reporting unit that constitutes a business is disposed of, the goodwill associated with such business is reversed and included in the carrying amount of the disposed business in determining the gain or loss on disposal.

### **Revenue Recognition**

Revenue associated with the sale of natural gas, crude oil, and natural gas liquids are recognized when title passes to the customer in accordance with the terms of the sales contracts. Revenues from oil and natural gas production from properties in which there is an interest with other producers are recognized on a net working interest basis.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### Derivative Financial Instruments

Trilogy recognizes a financial asset or liability when it becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value. After initial recognition, financial assets and liabilities held for trading are measured at fair value with the unrealized gains and losses recorded in income, loans and receivables are carried at amortized cost, while all other financial liabilities are subsequently measured at amortized cost using the effective interest method. Transaction costs on financial instruments are included in the fair value assessment of each financial asset and financial liability. Trilogy does not designate derivative instruments as hedges and does not have available-for-sale financial assets nor held-to-maturity investments.

### Income Taxes

Prior to 2007, Trilogy did not recognize any provision for income tax on the basis that it distributes all its taxable income to the Unitholders. As a result of the enactment of legislation imposing income taxes on income trusts, Trilogy commenced the recognition of future income taxes in its 2007 financial statements.

Trilogy follows the liability method of accounting for income taxes. Under this method, future income taxes are recognized for the effect of any difference between the carrying amount of an asset or liability reported in the financial statements and its respective tax basis, using substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in substantively enacted income tax rates, with adjustments being recognized in net earnings in the period in which the change occurs.

### Unit-based Compensation

The Trust accounts for its unit option plan using the 'fair value method'. Fair values of options are determined using the Binomial model at the grant date and are amortized as compensation cost over the life of the option with a credit to contributed surplus.

The Trust measures compensation cost under the unit appreciation plan as the amount by which the quoted market value of Trust Units covered by the grants exceeds the exercise price adjusted by unit distributions. Compensation cost under the unit appreciation plan is accrued over the appreciation units' vesting period. The recorded liability is revalued at the end of each reporting period to reflect changes in the market price of the Trust Units with the net change recognized in earnings. When appreciation rights are exercised, the accrued liability is reduced. The accrued compensation for a right that is forfeited or cancelled is adjusted by decreasing compensation cost in the period of forfeiture or cancellation.

Non-reciprocal awards of stock options to Trust employees made by a significant unitholder are fair valued using the Black Scholes model and are amortized to compensation expense over their contractual life of two to four years, with a credit to contributed surplus.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### Foreign Currency Translation

Transactions denominated in the United States ("U.S.") Dollar are translated to Canadian Dollar at the exchange rate on the transaction date. U.S. Dollar denominated monetary assets and liabilities are translated to Canadian Dollar at exchange rates in effect on the balance sheet date. The resulting exchange rate differentials arising from these items are included in net earnings.

### Per Trust Unit Information

The Trust uses the treasury stock method whereby only "in the money" dilutive instruments impact the diluted calculations.

### Measurement Uncertainty

The timely preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions and use judgment that affect the reported amounts of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Actual results could materially differ from these estimates.

The amounts recorded for depletion and depreciation, purchase accounting, asset retirement obligations and related accretion, future income taxes and amortization of fair value of options are based on estimates of reserves, future costs, petroleum and natural gas prices and other relevant assumptions. By their nature, these estimates and those related to the discounted cash flow used to assess impairment are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

## 4. PROPERTY, PLANT AND EQUIPMENT

	2007			2006		
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Accumulated Depletion and Depreciation		Net Book Value
				Cost	Depreciation	
Petroleum and natural gas properties	1,334,534	(619,817)	714,717	1,415,185	(575,154)	840,031
Other	8,959	(1,920)	7,039	2,738	(727)	2,011
	<b>1,343,493</b>	<b>(621,737)</b>	<b>721,756</b>	<b>1,417,923</b>	<b>(575,881)</b>	<b>842,042</b>

Capital costs associated with non-producing petroleum and natural gas properties totaling approximately \$125.6 million as at December 31, 2007 (2006 - \$144.0 million) were not subject to depletion. No interest costs were capitalized for the years ended December 31, 2007 and 2006.

The costs of exploratory dry holes amounting to \$7.8 million for the year ended December 31, 2007 (2006 - \$22.3 million) were written off and included in exploration expenditures. An asset impairment loss of \$8.1 million was also recognized during the year ended December 31, 2007 (2006 - \$2.4 million) and was included as part of depletion and depreciation expense. The reduction in the expected recoverable reserves attributable to certain petroleum and natural gas wells resulted in

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

the asset impairment. The fair value of these assets was determined using discounted future cash flows.

In 2007, Trilogy disposed of its Marten Creek property and other non-core properties in southern Alberta with a total carrying value of \$100.4 million, including attributable goodwill of \$11.8 million. These asset sales, together with other minor dispositions, resulted in a loss on disposal of \$1.2 million.

### 5. LONG-TERM DEBT

	2007	2006
Revolving credit and working capital facility	<b>326,655</b>	336,984
Non-revolving acquisition facility	—	77,400
Total maturity value of debt	<b>326,655</b>	414,384
Less unamortized discount	(159)	(1,848)
Carrying value of debt	<b>326,496</b>	412,536
Less current portion	—	(57,400)
Long-term debt	<b>326,496</b>	355,136
Weighted average interest rate for the year	<b>5.62%</b>	5.12%

The Trust has a \$335 million revolving credit facility and a \$35 million working capital facility with a syndicate of Canadian banks. Borrowing under the facility bears interest at the lenders' prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin dependent on certain conditions. The facilities are available on a revolving basis for a period of at least 364 days and can be extended a further 364 days upon request. The revolving phase of this credit facility expires on March 28, 2008, if not extended. In the event the revolving period is not extended, the revolving facility would be available for a one year term on a non-revolving basis, at the end of which time amounts drawn down under the facility would be due and payable. The working capital facility would continue on a revolving basis for a one year term. Advances drawn on the Trust's facility are secured by a fixed and floating charge debenture over the assets of the Trust. The \$370 million borrowing base is subject to semi-annual review by the banks.

In conjunction with an acquisition during the fourth quarter of 2006, the Trust entered into a junior secured non-revolving acquisition facility loan agreement. The initial amount drawn was \$89.4 million. This loan was fully paid in conjunction with the Marten Creek and southern Alberta asset dispositions. Borrowing under this facility was subject to interest at 1 to 2 percent in excess of the revolving credit facility interest rates.

The Trust has undrawn letters of credit totaling \$8.2 million as at December 31, 2007. These letters of credit reduce the amount available for draw under the Trust's working capital facility.

**TRILOGY ENERGY TRUST****Consolidated Statements of Cash Flows**

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

**6. ASSET RETIREMENT OBLIGATIONS**

	<b>2007</b>	<b>2006</b>
Asset retirement obligations, beginning of year	<b>55,994</b>	42,706
Liabilities incurred	<b>946</b>	5,902
Revisions in estimate	<b>5,062</b>	—
Liabilities settled	<b>(1,266)</b>	(1,658)
Accretion expense	<b>4,591</b>	3,736
Liabilities relating to assets sold	<b>(4,575)</b>	(1,341)
Liabilities assumed through acquisition	<b>—</b>	6,649
Asset retirement obligations, end of year	<b>60,752</b>	55,994

The undiscounted asset retirement obligations at December 31, 2007 is estimated to be \$156.4 million (2006 - \$228.2 million). The credit-adjusted risk-free rates used to estimate asset retirement obligation liability range from 7.875 to 8.5 percent. These obligations will be settled based on the expected life of the underlying assets, the majority of which are expected to be paid after 10 to 30 years and will be funded from the general resources of the Trust at the time of removal.

**7. UNITHOLDERS' CAPITAL****Authorized**

The authorized capital of the Trust is comprised of an unlimited number of Trust Units and an unlimited number of Special Voting Rights. Compared to the holders of the Trust Units, holders of Special Voting Rights are not entitled to any distributions of any nature from the Trust nor have any beneficial interest in any property or assets of the Trust on termination or winding-up of the Trust.

**Issued and Outstanding**

Trilogy had 94,608,704 Trust Units and 92,566,681 Trust Units outstanding at December 31, 2007 and 2006, respectively. No Special Voting Rights have been issued to date.

For the year ended December 31, 2007, 2,042,023 Trust Units (2006 – 933,235 Trust Units) were issued under Trilogy's Distribution Reinvestment Plan ("DRIP") (see note 8). No other additional Trust Units were issued in 2007 while 6,500,051 Trust Units were issued in 2006 in conjunction with an acquisition.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### Redemption Right

Unitholders may redeem their Trust Units at any time by delivering their Trust Unit Certificates to Trilogy's transfer agent together with a duly completed and properly executed notice. The redemption price per Trust Unit is equal to the lesser of 95 percent of the market price of the Trust Units on the principal market on which the Trust Units are quoted for trading during the 10-trading day period commencing immediately after the date on which the Trust Units were tendered for redemption, and the closing market price on the principal market on which the Trust Units are quoted for trading on the date that the Trust Units were tendered for redemption. Cash payments for Trust Units tendered for redemption are limited, subject to the administrator's sole discretion, to \$50,000 per month with redemption requests in excess of this amount eligible to receive notes from the holding trust or other assets held by the Trust. In addition, cash redemption may not apply if the outstanding Trust Units tendered for redemption are not listed for trading, the normal trading of the Trust Units is suspended or halted on any stock exchange or the redemption of Trust Units will result in the delisting of the Trust Units. In such cases, the fair market value of the Trust Units shall be determined by the administrator and be paid and satisfied by way of asset distribution.

### 8. ACCUMULATED DISTRIBUTIONS

	2007				2006			
	Cash	DRIP	Payable	Total	Cash	DRIP	Payable	Total
Balance, beginning of year	384,654	15,976	14,811	415,441	122,656	—	68,107	190,763
Distributions paid and/or reinvested	99,745	14,284	—	114,029	261,998	15,976	—	277,974
Change in yearend accrual	—	—	(8,188)	(8,188)	—	—	(53,296)	(53,296)
Distributions declared	99,745	14,284	(8,188)	105,841	261,998	15,976	(53,296)	224,678
Balance, end of year	484,399	30,260	6,623	521,282	384,654	15,976	14,811	415,441

Trilogy has a Distribution Reinvestment Plan (the "DRIP") which provides eligible Unitholders with the opportunity to reinvest their cash distributions, on each distribution payment date, for additional Trust Units at a price equal to 95 percent of the average market price. The DRIP was suspended effective for the November 2006 distribution and was reinstated effective for the September 2007 distribution.

On January 15, 2008, Trilogy announced its cash distribution for January 2008 at \$0.07 per Trust Unit. The distribution was paid on February 15, 2008 to Unitholders of record on January 31, 2008. On February 15, 2008, Trilogy also announced that its cash distribution for February 2008 will be \$0.07 per Trust Unit. The distribution is payable on March 17, 2008 to Unitholders of record on February 29, 2008.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### 9. UNIT BASED COMPENSATION

#### Unit Option Plan

The Trust has a long-term incentive plan that allows management to award unit options to eligible directors, officers and employees. Under this plan, holders of vested unit options are able to subscribe for the equivalent number of Trust Units at the exercise price within the contractual period prescribed in the governing option agreement. The majority of the outstanding options under this plan will vest in 2009 through 2012. A continuity of the unit option plan for the years ended December 31, 2007 and 2006 is as follows:

	2007			2006		
	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value per Option	No. of Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value per Option	No. of Options
Balance, beginning of year	\$ 14.42	\$ 1.95	2,261,000	\$ —	\$ —	—
Granted	8.06	1.28	1,875,500	14.53	1.95	2,291,000
Cancelled	13.72	1.92	(30,000)	22.77	2.58	(30,000)
Balance, end of year	\$ 11.52	\$ 1.64	4,106,500	\$ 14.42	\$ 1.95	2,261,000
Exercisable, end of year	\$ 14.72	\$ 1.92	176,500	\$ 14.90	\$ 1.99	45,000

The Trust has recorded a compensation expense of \$1.3 million for the year ended December 31, 2007 (2006 - \$1.2 million) representing the amortization of the grant date fair value of outstanding unit options, with a corresponding credit to contributed surplus. The fair value of options was determined under the binomial model using the following key assumptions:

Risk-free interest rate	—	3.9% to 4.25%
Expected life	—	4.5 to 5.5 years
Expected volatility	—	30% to 35%
Expected distributions	—	12% to 16%

Additional information about Trilogy's unit options outstanding as at December 31, 2007 is as follows:

Exercise Price Range	Weighted Average Contractual Life	Outstanding Options		Exercisable Options	
		Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$6.65 to \$9.25	5.5	1,296,000	\$ 6.70	—	\$ —
\$10.25 to \$11.89	3.6	1,736,500	10.87	100,250	10.81
\$18.03 to \$23.95	3.3	1,074,000	18.40	76,250	19.86
Total	4.1	4,106,500	\$ 11.52	176,500	\$ 14.72

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### Unit Appreciation Plan

In 2005, the Trust offered certain employees, officers and directors a unit appreciation arrangement whereby such employees, officers and directors were granted unit appreciation rights entitling the right holders to receive cash payments calculated as the excess of the market price over the exercise price per unit on the exercise date. The exercise price per unit appreciation right shall be reduced by the aggregate unit distributions paid or payable on the Trust Units to Unitholders of record from the grant date to the exercise date. The unit appreciation rights vest at subsequent anniversary dates with an expiry date of December 15, 2008. The Unit Option Plan replaced the Unit Appreciation Plan in 2006. There is no current intention to make further grants of unit appreciation rights. A continuity of the unit appreciation rights for the years ended December 31, 2007 and 2006 is as follows:

	2007		2006	
	Exercise Price	No. of Unit Rights	Exercise Price	No. of Unit Rights
Balance, beginning of year	\$ 5.28	1,268,250	\$ 7.76	1,306,000
Exercised	4.43	(30,000)	5.90	(28,750)
Cancelled	4.63	(6,000)	5.76	(9,000)
Balance, end of year	\$ 4.14	1,232,250	\$ 5.28	1,268,250
Unit rights exercisable, end of year	\$ 4.14	828,250	\$ 5.28	506,750

A compensation recovery of \$2.4 million relating to the unit appreciation plan has been recognized in earnings for the year ended December 31, 2007 (2006 - \$2.7 million). Of this amount, \$2.5 million compensation recovery (2006 - \$3.0 million) resulted from the valuation of the related unit-based compensation liability and \$0.1 million compensation expense (2006 - \$0.3 million) represented cash paid for the exercises of unit rights.

### Non-reciprocal Awards to Trust Employees

The Trust also recognized compensation expense of \$1.2 million for the year ended December 31, 2007 (2006 - \$1.5 million) with respect to the non-reciprocal awards of stock options to Trust employees made by Paramount Resources Ltd. ("Paramount"), a related party. This amount was credited to contributed surplus.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### 10. FINANCIAL INSTRUMENTS

#### Carrying Values of Financial Assets and Liabilities

	2007			2006		
	Held-for-Trading	Loans and Receivables / (Non-Trading Liabilities)	Total	Held-for-Trading	Loans and Receivables / (Non-Trading Liabilities)	Total
<b>Financial assets</b>						
Accounts receivable <sup>(1)</sup>	—	<b>51,603</b>	<b>51,603</b>	—	68,732	68,732
Financial instruments <sup>(2)</sup>	—	—	—	18,424	—	18,424
<b>Financial liabilities</b>						
Accounts payable and accrued liabilities <sup>(1)</sup>	—	<b>(59,500)</b>	<b>(59,500)</b>	—	(72,898)	(72,898)
Distributions payable <sup>(1)</sup>	—	<b>(6,623)</b>	<b>(6,623)</b>	—	(14,811)	(14,811)
Financial instruments <sup>(2)</sup>	<b>(6,963)</b>	—	<b>(6,963)</b>	—	—	—
Unit-based compensation liability <sup>(3)</sup>	—	<b>(3,092)</b>	<b>(3,092)</b>	—	(5,641)	(5,641)
Indebtedness <sup>(3)</sup>	—	<b>(326,496)</b>	<b>(326,496)</b>	—	(412,536)	(412,536)

(1) Carried at cost which approximates the fair value of the assets or liabilities due to the short-term nature of the accounts.

(2) Carried at the estimated fair value of the related financial instruments based on third party quotations. See Financial Contracts below.

(3) Carried at amortized cost/value of the liabilities. See notes 5 and 9 for Indebtedness and Unit-based compensation liability, respectively.

#### Financial Contracts

The Trust utilizes, from time to time, forward commodity price contracts that require financial settlements between counterparties to mitigate commodity price volatility. This program is generally for periods of up to one year and would not exceed 50 percent of Trilogy's annual production. At December 31, 2007, the Trust had outstanding financial forward arrangements to sell 1,000 Bbl/d of oil at a WTI Fixed Price of U.S.\$73.48/Bbl from January to December 2008 (also see note 15).

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

The Trust designated these financial instruments as held-for-trading and therefore has recognized the fair value of these financial instruments on the balance sheet. The estimated fair values of these financial instruments are based on quoted prices or, in their absence, third-party market indicators and forecasts. The fair values of forward financial contracts recognized as at the balance sheet dates are as follows:

	2007	2006
Financial instrument asset	—	18,424
Financial instrument liability	(6,963)	—
Net financial instrument asset (liability)	<b>(6,963)</b>	<b>18,424</b>

The changes in the fair value associated with the above financial instruments are recorded as an unrealized gain or loss on financial instruments in the statement of earnings. Gains or losses arising from monthly settlements with counterparties are recognized as a realized gain or loss in the statement of earnings.

### Credit, Interest Rate and Foreign Currency Risks

Under the Services Agreement described in note 11, Paramount carries out marketing functions on behalf of the Trust. The Trust is exposed to credit risk from financial instruments to the extent of non-performance by third parties. Credit risks associated with the possible non-performance by financial instrument counterparties are minimized by entering into contracts with only highly rated counterparties and third party credit risk with credit approvals, limits on exposures to any one counterparty, and monitoring procedures.

Production is sold to a variety of purchasers under normal industry sale and payment terms. The Trust's accounts receivable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal credit risk.

The Trust is also exposed to fluctuations in interest rates relative to its credit facilities as disclosed in note 5. In addition, foreign currency rate fluctuations may impact the Trust mainly due to the U.S. Dollar denominated financial instrument contracts mentioned above, in addition to normal conversions of U.S. Dollar denominated revenues into Canadian Dollar.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### 11. RELATED PARTY TRANSACTIONS

Trilogy had the following transactions with Paramount, a Unitholder of the Trust.

- Pursuant to a Services Agreement dated April 1, 2005, a Paramount subsidiary provides administrative and operating services to the Trust and its subsidiaries to assist a Trust subsidiary in carrying out its duties and obligations as general partner of Trilogy's operating entities and as the administrator of the Trust and its holding trust. Under this agreement, Paramount is reimbursed at cost for all expenses it incurs in providing the services to the Trust and its subsidiaries. The agreement is in effect until March 31, 2008 however may be terminated by either party with at least six months written notice. It is anticipated that the Services Agreement will be extended until March 31, 2009. The amount of expenses billed and accrued as management fees under this agreement was \$0.8 million for the year ended December 31, 2007 (2006 - \$1.9 million). This amount is included as part of the general and administrative expenses in the Trust's consolidated statement of earnings.
- The Trust and Paramount also had transactions with each other arising from the normal course of business. These transactions were recorded at exchange amounts.

The amounts due from (to) Paramount as at the balance sheet dates are as follows:

Presented in the Balance Sheet as	Normal Business	2007		Trust Distribution	2006	
		Services Agreement	Trust Distribution		Normal Business	Services Agreement
Accounts receivable	441	—	—	—	1,740	—
Accounts payable and accrued liabilities	(3,220)	(60)	—	—	—	(265)
Distributions payable	—	—	(1,168)	—	—	(2,405)

### 12. OFF BALANCE SHEET COMMITMENTS

In addition to items disclosed elsewhere in these financial statements, Trilogy had the following off balance sheet commitments as at December 31, 2007:

(In million dollars)	2008	2009	2010	2011	2012 and after	
					Total	
Pipeline transportation <sup>(1)</sup>	8,820	7,918	7,486	7,372	29,123	60,719
Office premises operating lease <sup>(2)</sup>	2,218	2,196	2,783	3,228	17,754	28,179
Vehicle and other operating leases	1,133	1,133	164	—	—	2,430
Minimum capital expenditure	444	—	—	—	—	444
Total	12,615	11,247	10,433	10,600	46,877	91,772

<sup>(1)</sup> Before Trilogy's undrawn letters of credit (see note 5) issued to cover some pipeline transportation commitments.

<sup>(2)</sup> Net of committed rental reimbursements through sub-lease arrangements.

# TRILOGY ENERGY TRUST

## Consolidated Statements of Cash Flows

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### 13. INCOME TAXES

On June 12, 2007, Bill C-52 Budget Implementation Act, 2007 was substantively enacted by the Canadian federal government. This Bill contains legislation to tax publicly traded trusts in Canada. As a result, income tax will be applied to distributions from Canadian public income trusts. The new tax is not expected to apply to the Trust until 2011 given a transition period that applies to publicly traded trusts in existence prior to November 1, 2006. As a result of the enactment of this legislation, the Trust recorded a net future income tax liability and future income tax expense of \$69.1 million as at and for the period ended December 31, 2007. The future income tax adjustment represents management's estimate of the differences between the book and tax basis of the Trust's assets and liabilities ("temporary differences") anticipated to exist in 2011 under current legislation, tax-effected at 29.5 per cent, which is the rate that is currently anticipated to be applicable beginning 2011, and 28 percent thereafter.

The following table reconciles the income tax expense calculated using the statutory tax rates to the income tax expense per the statement of earnings (loss):

	2007	2006
Expected income tax expense at statutory tax rate of 39 percent	7,529	54,937
Allocation of earnings to the Trust Unitholders	(8,488)	(55,963)
Non-deductible expenses	959	1,026
Future income taxes recognized as a result of new legislation	69,055	—
Income tax expense per statement of earnings (loss)	69,055	—

The nature and tax effect of temporary differences and unused carryforwards that give rise to future income tax assets and liabilities as at December 31, 2007 are as follows:

Description of Temporary Differences and Carryforwards	Tax Effect
Differences between the book and tax basis of the following accounts which are expected to reverse commencing January 1, 2011:	
Property, plant and equipment	(90,436)
Asset retirement obligation	16,096
Loss carryforwards and other	5,285
Net future income tax liability	(69,055)

Future changes in tax rates and technical interpretations of the new legislation could materially affect management's estimate of the Trust's future income tax liability. The amount and timing of reversals of temporary differences will be dependent upon, among other things, the Trust's future operating results, acquisitions and dispositions of assets and liabilities, and its distribution policy. A change in the assumptions used on the preceding items could materially affect the Trust's estimated future income tax liability.

### 14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year financial statement presentation.

# **TRILOGY ENERGY TRUST**

## **Consolidated Statements of Cash Flows**

(Tabular amounts expressed in thousand dollars except as otherwise indicated)

### **15. SUBSEQUENT EVENTS**

Subsequent to December 31, 2007, Trilogy entered into financial forward contracts to sell 50,000 MMBtu/d of natural gas from April to October 2008 at an average fixed NYMEX price of U.S.\$8.99/MMBtu, and 20,000 MMBtu/d of natural gas from November 2008 to March 2009 at a fixed NYMEX price of U.S.\$10.02/MMBtu.

On February 29, 2008, Trilogy's Board of Directors approved a normal course issuer bid through the facilities of the Toronto Stock Exchange (TSX). If such normal course issuer bid is approved by the TSX, Trilogy expects to be entitled to purchase up to 4,771,579 Trust Units during the one year period commencing on the date of approval of the normal course issuer bid by the TSX.

# CORPORATE INFORMATION

## OFFICERS

J. H. T. Riddell  
President and Chief Executive Officer

M. G. Kohut  
Chief Financial Officer

J. B. Williams  
Chief Operating Officer

G. L. Yester  
Corporate Secretary

## DIRECTORS

C. H. Riddell <sup>(1)</sup>  
Chairman of the Board  
Calgary, Alberta

J. H. T. Riddell <sup>(4)</sup>  
President and Chief Executive Officer  
Calgary, Alberta

M. H. Dilger <sup>(2)(4)</sup>  
Vice President, Business Development  
Pembina Pipeline Corporation  
Calgary, Alberta

W. A. Gobert <sup>(1)(3)</sup>  
Independent Businessman  
Calgary, Alberta

R.M. MacDonald <sup>(2)(3)(5)</sup>  
Independent Businessman and Corporate Director  
Calgary, Alberta

E.M. Shier <sup>(3)(4)</sup>  
Partner, Heenan Blaikie LLP  
Calgary, Alberta

D.F. Textor <sup>(1)</sup>  
Portfolio Manager,  
Dorset Energy Fund  
Partner, Knott Partners Management LLC  
Locust Valley, New York

J.G. Williams <sup>(1)(2)</sup>  
President and Chief Executive Officer  
Adeco Exploration Company Ltd.  
Calgary, Alberta

Committees of the Board of Directors of Trilogy Energy Ltd. (Administrator of the Trust)

- <sup>(1)</sup> Member of the Compensation Committee
- <sup>(2)</sup> Member of the Audit Committee
- <sup>(3)</sup> Member of the Corporate Governance Committee
- <sup>(4)</sup> Member of the Environmental, Health & Safety Committee
- <sup>(5)</sup> Lead Director

## HEAD OFFICE

1400, 332 - 6 Avenue S.W.  
Calgary, Alberta  
Canada T2P 0B2

Telephone: (403) 290-2900  
Facsimile: (403) 263-8915  
[www.trilogyenergy.com](http://www.trilogyenergy.com)

## AUDITORS

PricewaterhouseCoopers LLP  
Calgary, Alberta

## BANKERS

Bank of Montreal  
Calgary, Alberta  
The Bank of Nova Scotia  
Calgary, Alberta  
Canadian Imperial Bank of Commerce  
Calgary, Alberta  
Royal Bank of Canada  
Calgary, Alberta  
ATB Financial  
Calgary, Alberta  
Société Général  
Calgary, Alberta

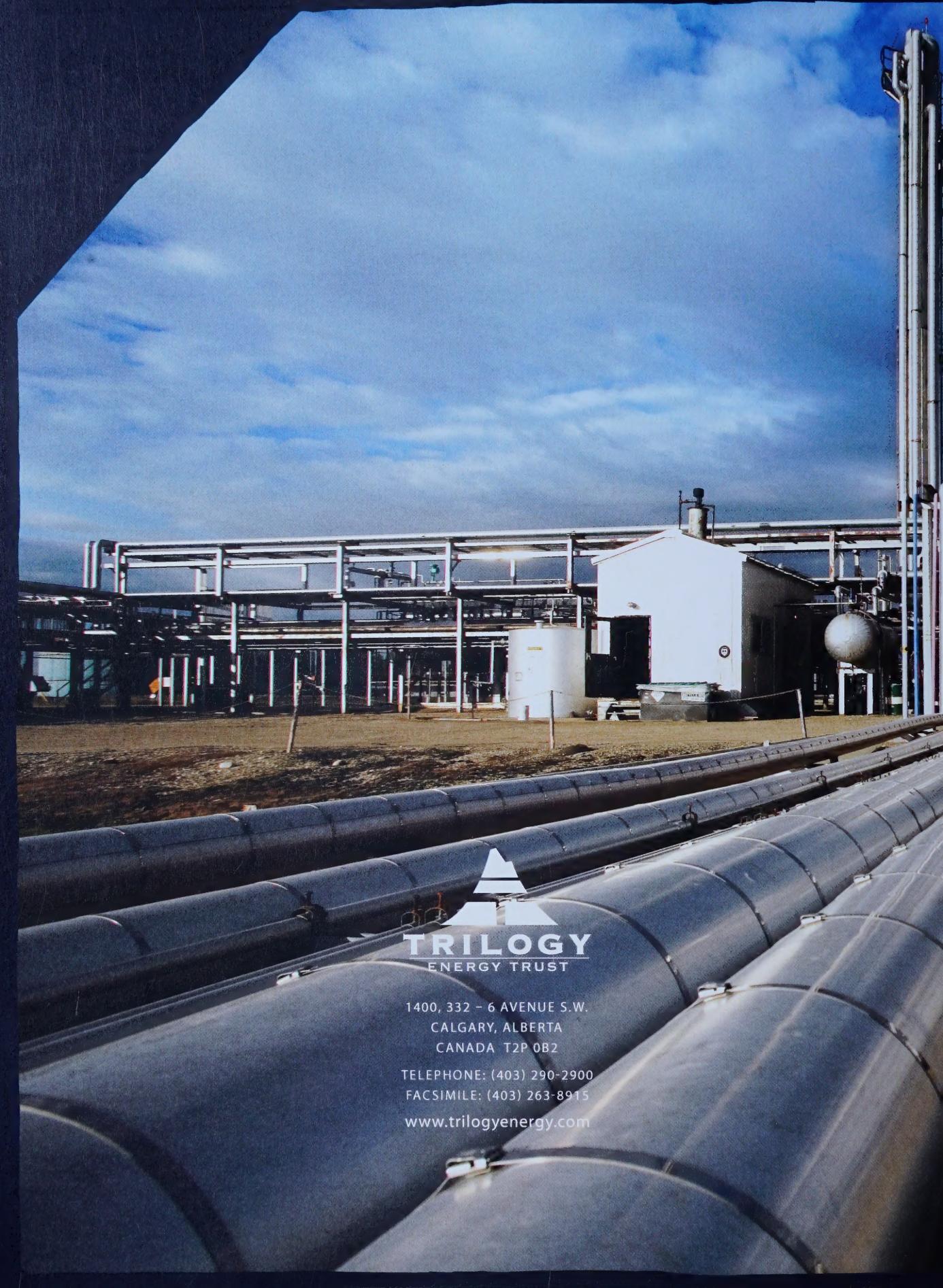
## CONSULTING ENGINEERS

Paddock Lindstrom and Associates Ltd.  
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT  
Computershare Investor Services Inc.  
Calgary, Alberta  
Toronto, Ontario

## STOCK EXCHANGE LISTING

The Toronto Stock Exchange  
"TET.UN"



1400, 332 - 6 AVENUE S.W.  
CALGARY, ALBERTA  
CANADA T2P 0B2

TELEPHONE: (403) 290-2900  
FACSIMILE: (403) 263-8915  
[www.trilogyenergy.com](http://www.trilogyenergy.com)